DOCUMENT RESUME

ED 382 776 CE 068 828

TITLE	The Federal Workforce Restructuring Act of 1993. Hearing on S. 1535 To Amend Title 5, United States Code, To Eliminate Narrow Restrictions on Employee Training, To Provide a Temporary Voluntary Separation Incentive, and For Other Purposes before the Committee on Governmental Affairs. United States Senate, One Hundred Third Congress, First Session (October 19, 1993).
INSTITUTION	Congress of the U.S., Washington, D.C. Senate Committee on Governmental Affairs.
REPORT NO	ISBN-0-16-044815-8; Senate-Hrg-103-683
PUB DATE	94
NOTE	81p.
AVAILABLE FROM	U.S. Government Printing Office, Superintendent of Documents, Congressional Sales Office, Washington, DC 20402.
PUB TYPE	Legal/Legislative/Regulatory Materials (090)
EDRS PRICE	MF01/PC04 Plus Postage.
DESCRIPTORS	*Early Retirement; *Employment Practices; *Federal Government; Federal Legislation; *Government Employees; Hearings; *Reduction in Force; Retirement Benefits
IDENTIFIERS	Congress 103rd; *Federal Workforce Restructuring Act 1993; Proposed Legislation

ABSTRACT

This document records the oral and written testimony of witnesses who testified at a hearing on a proposed amendment to the Federal Workforce Restructuring Act of 1993. The amendment would spell out how the federal work force is to be reduced in size and would provide cash incentives for early retirement as well as make retraining of existing workers more feasible. Witnesses included Senators Glenn, Roth, Stevens, Sasser, Pryor, and Akaka, as well as several officials of the Office of Management and Budget and the Department of Defense. The witnesses generally supported the idea of the amendment but pointed out the need to ensure that new workers were not hired to replace each one who left and that top-level officials as well as lower supervisors and workers were chosen for early retirement or voluntary layoff. The text of the amendment is included in the document. (KC)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

CE

S. Hrg. 103–683

THE FEDERAL WORKFORCE RESTRUCTURING ACT OF 1993

ED 382 776

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

S. 1535

TO AMEND TITLE 5, UNITED STATES CODE, TO ELIMINATE NARROW RESTRICTIONS ON EMPLOYEE TRAINING, TO PROVIDE A TEMPORARY VOLUNTARY SEPARATION INCENTIVE, AND FOR OTHER PURPOSES

OCTOBER 19, 1993

Printed for the use of the Committee on Governmental Affairs

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☑ This document has been reproduced as received from the person or organization originating it
☐ Minor changes have been made to improve reproduction quality
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy

U.S. GOVERNMENT PRINTING OFFICE
73-697 cc WASHINGTON : 1994

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-044815-8

CE 062228

BEST COPY AVAILABLE

COMMITTEE ON GOVERNMENTAL AFFAIRS

JOHN GLENN, Ohio, *Chairman*

SAM NUNN, Georgia
CARL LEVIN, Michigan
JIM SASSER, Tennessee
DAVID PRYOR, Arkansas
JOSEPH I. LIEBERMAN, Connecticut
DANIEL K. AKAKA, Hawaii
BYRON L. DORGAN, North Dakota

WILLIAM V. ROTH, Jr., Delaware
TED STEVENS, Alaska
WILLIAM S. COHEN, Maine
THAD COCHRAN, Mississippi
JOHN McCAIN, Arizona
ROBERT F. BENNETT, Utah

Leonard Weiss, *Staff Director*
Jane J. McFarland, *Professional Staff*
Catherine Lewis, *Staff Assistant*
Franklin G. Polk, *Minority Staff Director and Chief Counsel*
Michal Sue Prosser, *Chief Clerk*

CONTENTS

	Page
Opening statements:	
Senator Glenn	1
Senator Roth	9
Prepared statements:	
Senator Stevens	3
Senator Sasser	15
Senator Pryor	43
Senator Akaka	73

WITNESSES

TUESDAY, OCTOBER 19, 1993

James B. King, Office of Personnel Management	4
Philip Lader, Deputy Director for Management, Office of Management and Budget	11
Edwin Dorn, Assistant Secretary for Personnel and Readiness, Department of Defense	15

ALPHABETICAL LIST OF WITNESSES

Dorn, Edwin:	
Testimony	15
Prepared statement	17
King, James B.:	
Testimony	4
Prepared statement	7
Lader, Philip:	
Testimony	11
Prepared statement	13

APPENDIX

S. 1535	49
Prepared statement of the Organization of Professional Employees of the U.S. Department of Agriculture	62
Letter with attachments dated Oct. 25, 1993 to Chairman Glenn from James B. King, Director, OPM	67
Prepared Statement of Senator Akaka	73
Prepared Statement of G. Jerry Shaw, General Counsel, Senior Executives Association	73
Letter with enclosures dated Nov. 4, 1993 to Chairman Glenn from James B. King, Director, OPM	75
Questions submitted by Senator Glenn	75
Questions submitted by Senator Pryor	75
Questions submitted by Senator Roth	77

THE FEDERAL WORKFORCE RESTRUCTURING ACT OF 1993

TUESDAY, OCTOBER 19, 1993

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 9:43 a.m., in room SD–342, Dirksen Senate Office Building, Hon. John Glenn, Chairman of the Committee, presiding.

Present: Senators Glenn, Pryor, Dorgan, Roth, Stevens, and Bennett.

OPENING STATEMENT OF SENATOR GLENN

Chairman GLENN. The hearing will be in order.

We are scheduled to have a vote at 9:45 this morning, but I think rather than delay we will go ahead because sometimes those get put back a little bit. We will get our opening statements, as far as we can go, into the record before we have to vote.

I welcome everybody to today's hearing on S. 1535, the Federal Workforce Restructuring Act of 1993. I am pleased to report that two of my colleagues from the Committee, Senator Pryor and Senator Stevens, have joined me as original cosponsors of this bill. I look forward to working with them and other Committee members on this measure.

I would add that Senator Stevens was particularly sorry he could not be here this morning. He has a conflict. The DOD appropriations bill is on the floor, and he has to be on the floor with that this morning. He particularly regretted that, and I regret he is not here, too, because he has been particularly active in all these areas regarding civil service Government employees during his whole time here in the Senate. So he wanted to make sure everyone understood that he had a conflict this morning and was unavoidably unable to be here. He does have a statement for the record. We will enter that in the record and hope that things change over on the floor. He may be able to join us later for the hearing because his views on these things are always very insightful and very welcome.

This legislation is an initiative of the Vice President's National Performance Review. As we all know, one of the goals of NPR is a leaner and more responsive Federal workforce. The purpose of this bill is to provide agency heads with downsizing tools and employee retraining initiatives to cut the fat and build the muscle of the workforce.

Under the administration's proposal, agencies could employ voluntary separation incentive payments—voluntary—to encourage

employees to resign or retire from Federal service. In addition, it would reform current law on the training of Federal employees. Employee retraining will be increasingly necessary as we seek to create a multi-skilled Federal workforce, adaptable to changing circumstances and changing technology.

The administration proposal would allow agencies to offer targeted separation incentives—early retirement or financial payments or both—to selected groups of employees. The financial payments would be the lesser of $25,000 or the amount an employee would be paid in severance pay if their jobs were being abolished. An agency head could designate components of his or her agency, particular locations or offices, and/or particular job grades or occupations where separation incentives would be offered.

This latter point is very important because if this bill is enacted, there are going to be some disappointed Federal employees who find themselves ineligible for any separation payment. Let me stress this is not some sort of new benefit for Government workers. It is meant as a tool to downsize and cut fat from the Federal workforce.

Hand in hand with the NPR's goal of downsizing is the idea of making Government more responsive. Under the terms of this legislation, agencies would have the flexibility to retrain Federal employees for new assignments and expand training programs to include improving individual and organizational performance.

This morning I hope to examine details related to this proposal. There are still a number of questions that I would like to get on the record so we can set the things straight. For example, how do we ensure that agencies cut the fat and not the muscle? What kind of guidance will the Office of Management and Budget provide to agencies in identifying these certain employees? How much will the legislation cost or save?

Foremost also is addressing something that I think is highly important and that was pointed out in the report that was put out on the National Performance Review, "Creating a Government that Works Better and Costs Less." On page 70 of that, one of the action items is to change the ratio of managers to employees. Out in the business world, somewhere around 15 to 25 to 1 is considered a pretty good ratio of management to employees. The Federal Government is 7 to 1 on the average. And as pointed out on page 70 and the following page, we should be trying to redress that, and the goal is set out of trying to double that ratio within the next 5 years.

I think we need to explore exactly how this legislation is going to provide that mechanism of getting there and what the likelihood is that this will do it, or do we need something else. As I recall from the Vice President's statements on this, he was concerned that you could not do all this just by attrition; that while attrition rates in the Federal workforce go up and down over a period of time, sometimes it has been up as high as almost 9 percent per year, and yet this year it appears to be down around 2.9 or 3 percent, something like that. And so while at the lower levels of employment, the lower GS levels, attrition can probably do the job for us with no incentives, at the middle-manager areas, the 13's, 14's, and 15's, which is where we have some of this over-employment,

if you will, the question is: Can we change these ratios with this legislation? That is something I want to address a little bit later with some questions.

So we have the experience of the Postal Service and the Department of Defense to look back on. They have already been through some of this, and so I hope that we can take lessons learned as these agencies and apply them to our bill. So I look forward to the testimony of our witnesses.

PREPARED STATEMENT OF SENATOR GLENN

Good morning and welcome to today's hearing on S. 1535, the Federal Workforce Restructuring Act of 1993. I am pleased to report that two of my colleagues from the Committee, Senator Pryor and Senator Stevens, have joined me as original cosponsors of this bill. I look forward to working with Senator Stevens and Senator Pryor and other Committee members on this measure.

This legislation is an initiative of the Vice President's National Performance Review (NPR). As we all know, one of the goals of NPR is a leaner and more responsive Federal workforce. The purpose of this bill is to provide agency heads with downsizing tools and employee retraining initiatives to cut the fat and build the muscle of the workforce.

Under the Administration's proposal, agencies could employ voluntary separation incentive payments to encourage employees to resign or retire from Federal service. In addition, it would reform current law on the training of Federal employees. Employee retraining will be increasingly necessary as we seek to create a multi-skilled Federal workforce, adaptable to changing circumstances and technology.

The Administration proposal would allow agencies to offer targeted separation incentives—early retirement or financial payments or both—to selected groups of employees. The financial payments would be the lesser of $25,000 or the amount an employee would be paid in severance pay if their jobs were being abolished. An agency head could designate components of his or her agency, particular locations or offices, and/or particular job grades or occupations where separation incentives would be offered.

This latter point is very important because if this bill is enacted, there are going to be some disappointed Federal employees who find themselves ineligible for any separation payment. Let me stress that this is not some sort of new benefit for government workers. It is meant as a tool to cut fat from the workforce.

Hand in hand with the NPR's goal of downsizing, is the idea of making government more responsive. Under the terms of the legislation, agencies would have the flexibility to retrain Federal employees for new assignments, and expand training programs to include improving individual and organizational performance.

This morning, I hope to examine the details related to this proposal. There are still a number of questions in my mind and I would like to get the record set straight. For example, how do we ensure that agencies cut the fat and not the muscle? What kind of guidance will the Office of Management and Budget provide to the agencies in identifying these employees? How much will this legislation cost or save?

We have the experiences of the Postal Service and the Department of Defense to look back on. I hope that we can take the lessons learned at these agencies and apply them to our bill. I look forward to the testimony of our witnesses.

PREPARED STATEMENT OF SENATOR STEVENS

Thank you, Mr. Chairman, for scheduling this hearing so quickly. As you know, I am an original cosponsor of S. 1535. It is important, in my estimation, for this to be a bipartisan effort and for us to all work together so that legislation passed by the Senate accomplishes the goal of assisting agencies as they streamline the Federal Government.

Two of our witnesses today—OPM Director Jim King and OMB Deputy Director for Management Philip Lader—can expect some tough questions. While the basic idea of this bill has merit, the devil is in the details.

It is important that we have a representative from the Department of Defense with us today because DOD was the guinea pig—this proposal is the natural progression of legislation which was enacted last year to minimize civilian layoffs at the Department of Defense. From all accounts, the flexibility we provided has proved to be invaluable to both management and employees.

There can be no misunderstanding—we are not creating an employee entitlement. Agency heads must retain the authority and discretion to offer the incentives in specific locations or job classifications or whatever combination best suits the particular agency. However, once management makes the decision about eligibility, employees must exercise great care in making the decision to accept this offer.

Mr. Chairman, while I still have some reservations about particular provisions of this bill, it is my hope that we will be able to work together to fine tune this proposal. I do support this bill's basic concept: giving agencies the tools needed to reach a goal—voluntary Federal workforce reduction to meet budgetary constraints.

Chairman GLENN. With that we will open with Mr. King. We welcome you, Jim. He is the Director of the Office of Personnel Management. We also have Philip Lader, Deputy Director for Management, Office of Management and Budget, OMB, and Ed Dorn, Assistant Secretary for Personnel and Readiness of the Department of Defense. So we have three highly qualified people this morning as our witnesses.

Jim, if you would lead off, we would appreciate it.

TESTIMONY OF JAMES B. KING, DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

Mr. KING. Thank you, Mr. Chairman.

Mr. Chairman and members of the Committee, I want to thank you for the opportunity to appear before your Committee today to discuss the administration's legislative proposal, S. 1535.

Chairman GLENN. Pull that mike up real close to you. These are very directional mikes.

Mr. KING. Thank you. Thank you, Mr. Chairman. It is flattering to think someone might be listening.

The bill, S. 1535, was introduced in the Senate by yourself, Mr. Chairman, and cosponsored by Senators Pryor and Stevens and Senator Warner. I commend your Committee for its prompt consideration of this very important legislation, and I am here today to explain the administration's vital need for these management tools.

As you know, the President's National Performance Review has recommended, in line with the goal of moving from red tape to results to create a Government that works better and costs less, that the size of the Federal workforce be reduced. In order to minimize the impact of meeting this need, the President has proposed greater flexibilities in the training of Government employees and authorization for Federal agencies to pay voluntary separation incentives to those employees who choose voluntary retirement or resignation.

First, let me address the Government's new emphasis on training. Commitments to shift resources from management control to customer service, reduce supervisory and managerial layers, and other planned changes, will have a significant impact on Federal agencies and employees. Many employees will change jobs and, therefore, will have to be retrained to perform their new responsibilities. Therefore, employee retraining will be increasingly necessary as we seek to create a multi-skilled workforce suited to rapidly changing technology. Greater flexibility in training will be essential to accomplishing this.

So that the Federal Government is better positioned to carry out its many critical missions during and following the implementation of the National Performance Review recommendations, restrictions

on the training of Government employees must be reformed. The President's proposal removes unnecessary and narrow restrictions on employee training. We propose to use training to advance both the employee's performance and organizational mission accomplishment. In addition, this policy will benefit the Government by creating an environment more conducive to meeting agency goals and missions.

Further, we propose to make available the most cost-efficient and -effective training available, whether offered by the Government or the non-government sector or private sector, by removing current restrictions on the use of private sector training courses.

Now let me turn to the need for voluntary separation incentives. Agency heads currently have a range of tools and incentives to assist them in restructuring their workforce. Depending on the particular needs of the organization, they may rely on normal attrition and, when authorized by OPM, early retirement to reach lower employment levels.

Normal attrition rates have recently fallen each year from a high of 8.7 per 100 employees in fiscal year 1987 to a low of only 2.9 per 100 employees in fiscal year 1993. In the last 3 years, fewer eligible employees have elected to retire under the voluntary early retirement option. For example, from 1983 through 1988, approximately 17 percent of eligible employees actually retired. This figure has declined to less than 5 percent in both fiscal years 1991 and 1992. Clearly, some inducement is needed to reverse this trend.

As a last resort, agencies may use involuntary separations through reduction in force, better known as RIF. However, another more humane option is possible. Voluntary separation incentives, or buyouts, have proven very effective in reducing employment levels at the Department of Defense, where such payments were authorized under the National Defense Authorization Act of 1993. Similar authority has been enacted for the Central Intelligence Agency and for legislative branch agencies. Currently, bills to give such authority to the National Aeronautics and Space Administration, the U.S. Forest Service, and foreign service agencies are pending in the Congress. Other Government agencies now also have an urgent need for this tool to enable them to restructure.

No one now doubts that the deep budget reductions envisioned by the President and the Congress will result in significant personnel cuts in the Federal workforce. The legislation that we are discussing today will help to achieve these necessary personnel reductions in the most humane way possible—by providing incentives to employees who voluntarily choose to retire or resign in exchange for a cash incentive. While it is too early to predict whether reductions in force, RIF's, would be necessary even with the use of voluntary separation incentives, there is no doubt that RIF's would be unavoidable, would be totally unavoidable, without the voluntary separations this legislation will produce.

In order to reduce Federal personnel levels with minimal disruption and financial hardship to employees and their families, Federal agencies would be authorized to pay a voluntary separation incentive to employees who retire or resign during a 3-month "window." And I would like to think that would be up to 3 months, Mr. Chairman, not a fixed 90-day period. The amount of the voluntary

separation incentive is the amount the employee would be entitled to receive as severance pay, or $25,000, whichever is less. This is the same amount that has been provided in the DOD and other congressionally authorized separation incentive programs that I cited earlier.

The 90-day window during which employees would be able to elect to leave and receive the incentive will be designated by each agency head and may occur at any time between the date of enactment of this legislation through September 30, 1994.

Eligible employees would be those who have a permanent appointment and at least 1 full year of service. Re-employed annuitants and those eligible for disability retirement would be excluded.

Agency heads would designate components of agencies, occupations, particular geographic locations, et cetera, where separation incentives would be offered. The administration would expect agency heads to obtain approval from the Office of Management and Budget, OMB, of their plans for use of the voluntary separation incentives. Agencies would have the authority to delay separations of particular employees for whom separation incentives have been authorized for up to 2 years after the end of the 90-day window where necessary to ensure the performance of the agency's mission.

To ensure that the voluntary separation incentives produce actual cuts in staffing levels, employment in the executive branch would be reduced by not less than 1 full-time equivalent position for each two separation incentives paid. I want to stress the voluntary nature of this program. Employees may not be coerced to leave against their wishes. Under implementing regulations that OPM will issue, agencies may not use any personal basis to grant or deny an incentive to any individual employee.

S. 1535 would require the full repayment of the separation incentive by the recipient if she or he is re-employed by the Federal Government within 5 years of separation. This requirement could be waived in exceptional circumstances related to difficulty in recruiting. The bill also extends this repayment obligation to those receiving voluntary separation incentives under the DOD and CIA programs.

We envision the widespread use of the voluntary early retirement authority in conjunction with the separation incentives. Current law requires agencies to obtain the approval of OPM to offer their employees early retirement. To assure the complementary use of early retirements with separation incentives, OPM will adopt new procedures to facilitate agency requests and flexibility in their use. This will include matching the effective dates of early retirement authority with the separation incentives window.

These voluntary separation incentives would be fully funded from the agencies' existing appropriations. To make them cost-effective in fiscal year 1994, the incentives need to be available as early as possible in this fiscal year. More significantly, separations resulting from the payment of incentives are expected to produce substantial savings in fiscal year 1995, helping agencies to reach that year's budget reduction targets.

A final feature of this legislation would rectify a long-standing problem for the Civil Service Retirement System—and that is

CSRS, as you know, Mr. Chairman—namely, the "underfunding" of early retirements. The current annuity reduction of 2 percent for each year the retiree is under age 55 is insufficient to cover the added costs to the system of the early retirement. Our proposal would require agencies to pay a one-time additional charge of 9 percent of the employee's final annual salary for each employee who retires early under CSRS. The 9-percent charge is based on the actual experience in paying annuities to early retirees in the Civil Service Retirement System for the years 1975 through 1989. The model used to evaluate this cost is the standard actuarial model that OPM uses for all retirement purposes. We are confident that this is the correct adjustment and will, over time, correct the underfunding situation. This would be a permanent change in law and would apply to all future CSRS early retirements.

The administration urges Congress to enact S. 1535 as soon as possible, and I would personally like to thank you for this opportunity to present our views on this important legislation. I would be more than pleased to respond to any questions that the Committee might have.

PREPARED STATEMENT OF JAMES B. KING

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before your committee today to discuss the administration's legislative proposal, S. 1535, introduced in the Senate by Chairman Glenn, and cosponsored by Senators Pryor, Stevens, and Warner. I commend your committee for its prompt consideration of this very important legislation and am here today to explain the administration's vital need for these management tools.

As you know, the President's National Performance Review has recommended, in line with the goal of moving from red tape to results to create a government that works better and costs less, that the size of the Federal workforce be reduced. In order to minimize the impact of these changes, the President has proposed greater flexibilities in the training of government employees and authorization for Federal agencies to pay voluntary separation incentives to those employees who choose voluntary retirement or resignation.

First, let me address the government's new emphasis on training. Commitments to shift resources from management control to customer service, reduce supervisory and managerial layers, and other planned reorganizations, will have a significant impact on Federal agencies and employees. Many employees will change jobs and have to be retrained to perform their new responsibilities. Therefore, employee retraining will be increasingly necessary as we seek to create a multi-skilled workforce suited to rapidly changing technology. Greater flexibility in training will be essential to accomplishing this.

So that the Federal Government is better positioned to carry out its many critical missions during and following the implementation of the National Performance Review recommendations, restrictions on the training of government employees must be reformed. The President's proposal removes unnecessary and narrow restrictions on employee training. We propose to use training to advance both the employee's performance and organizational mission accomplishment. In addition, this policy will benefit the government by creating an environment more conducive to meeting agency goals and missions.

Further, we propose to make available the most cost-efficient and effective training available, whether offered by the government or the private sector, by removing the current restrictions on the use of private sector training sources.

Now, let me turn to the need for voluntary separation incentives. Agency heads currently have a range of tools and incentives to assist them in restructuring their workforce. Depending on the particular needs of the organization, they may rely on normal attrition, and, when authorized by OPM, early retirement to reach lower employment levels.

Normal attrition rates have recently fallen each year from a high of 8.7 per 100 employees in fiscal year 1987 to a low of only 2.9 per 100 employees in fiscal year 1993. In the past three years, fewer eligible employees have elected to retire under

the voluntary early retirement option. For example, from 1983 through 1988, approximately 17 percent of eligible employees actually retired. This figure has declined to less than 5 percent in both fiscal years 1991 and 1992. Clearly, some inducement is needed to reverse this trend.

As a last resort, agencies may use involuntary separations through reduction in force (RIF). However, another more humane option is possible. Voluntary separation incentives, or buyouts, have proven very effective in reducing employment levels at the Department of Defense (DOD), where such payments were authorized under the National Defense Authorization Act of 1993. Similar authority has been enacted for the Central Intelligence Agency (CIA) and for legislative branch agencies. Currently, bills to give such authority to the National Aeronautics and Space Administration, the U.S. Forest Service, and foreign service agencies are pending in the Congress. Other government agencies now also have an urgent need for this tool to enable them to restructure.

No one now doubts that the deep budget reductions envisioned by the President and the Congress will result in significant personnel cuts in the Federal workforce. The legislation that we are discussing today will help to achieve these necessary personnel reductions in the most humane way possible—by providing incentives to employees who voluntarily choose to retire or resign in exchange for a cash incentive. While it is too early to predict whether reductions in force (RIFs) would be necessary even with the use of voluntary separation incentives, there is no doubt that RIFs would be unavoidable without the voluntary separations this legislation will produce.

In order to reduce Federal personnel levels with minimal disruption and financial hardship to employees and their families, Federal agencies would be authorized to pay a voluntary separation incentive to employees who retire or resign during a three-month "window." The amount of the voluntary separation incentive is the amount the employee would be entitled to receive as severance pay, or $25,000, whichever is less. This is the same amount that has been provided in the DOD and other congressionally authorized separation incentive programs cited earlier.

The 90-day window during which employees would be able to elect to leave and receive the incentive will be designated by each agency head and may occur at any time between the date of enactment of this legislation through September 30, 1994.

Eligible employees would be those who have a permanent appointment and at least 1 full year of service. Reemployed annuitants and those eligible for disability retirement would be excluded.

Agency heads would designate components of agencies, occupations, particular geographic locations, etc., where separation incentives would be offered. The administration would expect agency heads to obtain approval from the Office of Management and Budget (OMB) of their plans for use of the voluntary separation incentives. Agencies would have the authority to delay separations of particular employees, for whom separation incentives have been authorized, for up to two years after the end of the 90-day window where necessary to ensure the performance of the agency's mission.

To ensure that the voluntary separation incentives produce actual cuts in staffing levels, employment in the executive branch would be reduced by not less than one full-time equivalent position for each two separation incentives paid. I want to today stress the voluntary nature of this program. Employees may not be coerced to leave against their wishes. Under implementing regulations that OPM will issue, agencies may not use any personal basis to grant or deny an incentive to any individual employee.

S. 3515 would require the full repayment of the separation incentive by the recipient if he or she is reemployed by the Federal Government within 5 years of separation. This requirement could be waived in exceptional circumstances related to difficulty in recruiting. The bill also extends this repayment obligation to those receiving voluntary separation incentives under the DOD and CIA programs.

We envision the widespread use of the voluntary early retirement authority in conjunction with the separation incentives. Current law requires agencies to obtain the approval of OPM to offer their employees early retirement. To assure the complementary use of early retirements with separation incentives, OPM will adopt new procedures to facilitate agency requests and flexibility in their use. This will include matching the effective dates of the early retirement authority with the separation incentives window.

These voluntary separation incentives would be fully funded from agencies' existing appropriations. To make them cost effective in fiscal year 1994, the incentives need to be available as early as possible in this fiscal year. More significantly, separations resulting from the payment of incentives are expected to produce substantial

savings in fiscal year 1995, helping agencies to reach that year's budget reduction targets.

A final feature of this legislation would rectify a long-standing problem for the Civil Service Retirement System (CSRS), namely the "underfunding" of early retirements. The current annuity reduction of 2 percent for each year the retiree is under age 55 is insufficient to cover the added costs to the system of the early retirement. Our proposal would require agencies to pay a one-time additional charge of 9 percent of the employee's final annual salary for each employee who retires early under CSRS. The 9 percent charge is based on the actual experience in paying annuities to early retirees in the Civil Service Retirement System for the years 1975 through 1989. The model used to evaluate this cost is the standard actuarial model that OPM uses for all retirement purposes. We are confident that this is the correct adjustment and will, over time, correct the underfunding situation. This would be a permanent change in law and would apply to all future CSRS early retirements.

The Administration urges Congress to enact S. 1535 as soon as possible. Thank you for this opportunity to present OPM's views on this important legislation. I would be pleased to answer any questions the committee may have.

Chairman GLENN. Thank you, Mr. King. The lights on the clock in the back of the room back there indicate I have just a few minutes to get to the floor and vote. So we will stand in temporary recess momentarily.

Mr. KING. Thank you, Mr. Chairman.

[Recess.]

OPENING STATEMENT OF SENATOR ROTH

Senator ROTH. [Presiding.] We will proceed with the opening statements. The Chairman will be back briefly.

The Federal Government is both broke and broken. To remedy that, Government must improve its productivity. The first step in improving productivity is to become able to measure performance, and we have taken that step with the enactment of S. 20 last July.

But many other steps remain to be taken to increase the Government's productivity. Among them is to streamline and reorganize the bureaucracy so that the Government can do more with less. I have long been a champion of efforts such as S. 797 to downsize the Federal bureaucracy by offering employees an opportunity for early retirement. Moreover, I am in full agreement with the general philosophy of the Vice President's National Performance Review that we need to reinvent the Federal workforce.

After all the years of working virtually alone to create a Federal workforce for the modern age, I am pleased to find myself in such distinguished company. So it is with considerable reluctance that I state my concern with the first of the NPR proposals to come before this Committee.

I am concerned that the proposal before us today is insufficiently connected to any clear plan for implementing a reinvention of the Federal Government. At the very least, it seems to come to us too early in the proper sequencing of reforms. This bill follows a Presidential memorandum to agency heads last month entitled "Streamlining the Bureaucracy." By December 1st, each agency is to propose a plan for cutting in half the ratio of managers and supervisors to other personnel. They are also to propose greater decentralization, delegation of authority, and personal accountability for performance.

The problem is that these worthy objectives cannot be fully achieved without legislation—legislation which we have not yet even begun to consider. What will be the impact, for instance, of

cutting in half the number of Federal managers if our management and personnel laws remain unreformed? Can we presume that legislation we have yet to see will be enacted? An even more basic problem with this legislation is that, for all its presumed intent, it does not actually mandate a reduction in the size of the Federal workforce. Even if it resulted in the full goal of 52,000 people leaving Federal employment, nothing in this bill and nothing in current law prohibits these positions from being refilled immediately. Clearly this is a major problem with the bill.

In other words, we could end up spending a great deal of money encouraging a large number of early retirements and still not have achieved significant downsizing. And if we did achieve the downsizing, Government performance could worsen because other reforms were not in place.

Some have expressed concern that the legislation in its present form might be used primarily to eliminate and replace dead wood or perhaps even used on a partisan level to eliminate so-called living Republican wood. These objectives were not mentioned, of course, in the National Performance Review.

I am also troubled by the large price tag associated with this proposal—$674 million over the next 3 years, according to the Congressional Budget Office. Now, these moneys fall under the pay-as-you-go budget rules which say that other spending will have to be cut or taxes raised to pay for this bill. Well, how will this be paid for? I do, however, applaud the Senate version of the bill which has increased the period of time from 2 to 5 years for anyone taking the buyout to not be re-employed by the Federal Government. The administration proposal and House version contains a 2-year prohibition on re-employment. In my judgment, this is inadequate.

Now, one of the goals of the NPR is to give greater flexibility to managers to promote efficiency in their agencies. In its current form, the bill does not contain criteria for agency heads to follow in administering the incentive program. I do understand that OMB would have to approve the agency's requested incentive. However, I believe a set of guiding principles for agency heads should be established prior to administering the incentive programs.

It seems to me that we are being asked to grant a tool to a builder before the builder has had the benefit of reviewing the blueprint for the structure under construction. Last week, in testimony before the House Post Office and Civil Service Subcommittee, OPM predicted that between 60,000 to 100,000 people would volunteer to take the buyout. CBO estimated that about 54,000 people would participate. I am eager to hear this morning how the administration plans to downsize after the completion of the incentive program to achieve the goal of 252,000.

We will recess until the return of the Chairman.

[Pause.]

Senator ROTH. We will continue to proceed with the testimony. I believe, Mr. King, you have given your testimony.

Mr. KING. Yes, Senator.

Senator ROTH. Mr. Lader, are you next?

Mr. LADER. Yes, sir.

Senator ROTH. Please proceed.

TESTIMONY OF PHILIP LADER, DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. LADER. Thank you very much, sir. Let me ask that my previously submitted statement be entered in the record, and let me speak more informally.

As you know from my confirmation hearings, I have spent my career in the private sector. People often ask what are the biggest surprises I have had in these last 9 or 10 months in Government service. One of the biggest surprises I have had is the quality of the Federal workforce.

Senator ROTH. Would you pull your microphone a little closer, please? Thank you.

Mr. LADER. I have been tremendously impressed over the last 9 or 10 months with the remarkable number of hard-working, very savvy, smart Federal employees.

Senator ROTH. Could I just interrupt there? I want to underscore what you just said. Sometimes I think that is under-appreciated in the private sector. We do have many, many excellent people in the Federal Government, and I am happy to hear you make that point.

Mr. LADER. That is my first theme.

The second theme is this: If all of us are seeking to undertake reforms in our Federal Government resulting in the NPR spirit and a government that works better and costs less, we look to private sector reforms for initiatives that have worked and see where we can model some of our efforts after the private sector's. The legislation under discussion today is very much driven by private sector models.

I want to express my particular appreciation to the Chairman for introducing this bill and for assuring its prompt consideration, and to Senator Stevens for cosponsoring the bill, to Senator Pryor for his pioneering work in separation incentive programs. And I want to thank you, Senator, for the work in initiating S. 20 because performance measurement really is part of what this bill is all about as well.

You used the analogy of a builder undertaking an effort without any blueprints. What we are concerned about is that, in the construction of the reforms in the Federal Government, we do not have a cookie-cutter approach whereby we are requiring that this conglomerate of conglomerates we call the Federal Government, so vast in size, has to follow Kremlin-like rules and specifications handed down by Congress or OMB as to how to get the job done. Consistent with your vision in the Government Performance and Results Act, we are seeking to lay out the vision, as the Vice President did in his symbolic and very substantive leadership of the National Performance Review—but then from that vision to have a variety of tools provided to the Government managers, the people who are running the departments, to implement these reforms, holding them accountable for performance—coming back to the theme of the legislation to which you devoted so much time.

The buyout is a proven tool in the private sector to reduce the size of organizations in a way that is effective for the organization's ongoing mission. By increasing voluntary separations and promoting retraining, an equally important part of this legislation, I assure you, we expect to minimize the need for layoffs, which can be

incredibly expensive and very disruptive if we are treating citizens increasingly as customers. We believe that the morale impact of that would be very telling.

Under the National Performance Review, right-sizing the Federal workforce is not just rhetoric; it is an imperative. We believe that we can get greater results through employees who are more empowered to make decisions, to hold them accountable for measured performance, but at the same time reducing the many duplicative layers of supervision.

This voluntary separation incentive proposal is but one of a very broad range of administrative actions following the National Performance Review. You asked, Senator, why is this the first? As you are well aware, there have been more than a dozen Executive Orders and memoranda issued by the President to implement recommendations of the National Performance Review. And so from the vision set by the Vice President, we have a series—a specific, orderly rollout—of measures of which this combined retraining and buyout package is merely one.

On September 11th this year, the President directed all departments and agencies to develop a streamlining plan that addresses this downsizing. The President's goal in that order is to reduce the size of the Federal workforce, as you know, by 252,000 individuals. That encompassed the 100,000 already envisioned in his Executive Order earlier this year.

Now, if you look at Sears Roebuck, Ford Motor Company, General Motors, Salomon Brothers, across the board in the private sector, buyouts have been a very effective tool if there is adequate performance measurement and also adequate management discretion to decide how those buyouts shall be applied. And that is why the guidance for the crafting of this program, in which OPM played the most significant role, really focuses on how to hold the agencies accountable: no new costs—there is no separate pool of money; they must use funds within their current budgets under the caps of the Budget Enforcement Act. These are not additional costs. What the agencies must decide is better use of money for specific programs, for continuing employment, or to use some of that same money for a buyout incentive to help right-size the workforce.

You raised a concern about whether there will be more employees or the same number of employees after this Federal expenditure. I mentioned already that it is not an additional expenditure; it is money already within their budget. But, secondly, by the requirement that Director King has already mentioned, for every two buyouts only one individual can be replaced. We believe that there is a very significant net decrease in employment.

You could raise the question, well, why then have any replacement factor? This is not simply downsizing. This is an effort to streamline and to right-size. Consequently, certain departments or agencies may have a surfeit, an abundance of individuals in a particular job category, but have a critical need for employment, additional employment, in other job categories. This allows the individual agency manager, with great management discretion, to reduce two positions here but, if necessary, add back no more than one position over here if it is a critical need in this agency or department.

We believe as part of the comprehensive management improvement to the Federal Government that this is a very effective means to right-size in the context of the proper roles and missions of the respective agencies. We hope this can be done in a less disruptive way than reductions in force.

Another reference: On October 8th of this year, OMB Director Panetta wrote to all agencies asking for expedited action on the streamlining plan. You raised in your statement concern as to whether there will be adequate OMB review. You are correct in observing that, before any of these buyouts can be administered or applied, the plan must be approved by us at OMB. But let me suggest that there has been a very significant change in tone of the guidance provided by OMB to the agencies because, in that October 8th directive, Director Panetta said, "In preparing your plan," speaking to the Secretaries in the Cabinet and the agency Directors, "you should refer to the President's memorandum and to the recommendations of the National Performance Review for guidance. These include closing or consolidating field offices, reducing management layering, fuller use of new technology, reducing regulation and red tape in areas such as personnel, procurement, budgeting, internal management, and enhanced employee training and cross-training."

You will note, unlike some former OMB directives, this is not saying this is the specific plan, dot this "i," cross this "t," but it is providing the general guidance of where the agencies should look to accomplish this. The agencies prepare and submit to us by November 1 their plans, and then in a dialogue with the agencies on the President's behalf, we at the Office of Management and Budget will determine the right mix of this right-sizing. I would contend to you, Senator, that there is a very specific plan requirement before the agencies can use these buyouts.

In our view, we need this legislation. It is necessary to increase voluntary turnover, given the fact that attrition and retirements are at near-historic low levels. We need this to reduce the impediments to retraining, to have training opportunities similar to the private sector. And as has been reported, the Department of Defense has successfully used similar buyout authority to such an extent to accomplish its goals.

In conclusion, the Administration very strongly supports adoption of this proven approach based on private sector experience and urges the Congress to enact S. 1535 as soon as possible.

Thank you very much, sir.

PREPARED STATEMENT OF PHILIP LADER

Mr. Chairman, let me thank you for the invitation to testify on behalf of the Administration's proposal for a voluntary separation incentive. I want to express particular appreciation to you, Mr. Chairman, for introducing S. 1535 and acting to assure its prompt consideration, to Senator Stevens for co-sponsoring the bill, and to Senator Pryor whose pioneering work in separation incentives programs laid the foundation for this important initiative.

As you know, this is one of the recommendations of the Vice President's National Performance Review—to provide a proven tool to assist in accomplishing many of the NPR recommendations. It will provide a cost-effective way to increase voluntary turnover so that reforms can be implemented more readily. By increasing voluntary separations and promoting retraining, we expect to minimize the need for layoffs—reductions in force. We all agree that resort to involuntary separations, under cur-

73-597 - 94 - 2

rent law and procedures, is an extremely disruptive, costly, and morale-breaking process to be avoided.

Before addressing this specific proposal, let me emphasize that what we are about, in the words of the National Performance Review Report's title, is "creating a Government that works better and costs less." This is more than just rhetoric; it is an imperative. As the report highlights, we must cut the red tape; we must put the customer first; we have to get results through empowered employees; and we must commit to more than a piecemeal approach to reform. There needs to be a long-term commitment to change the way Government works.

The voluntary separation incentive proposal is but one of a broad range of administrative and legislative actions required to make the vision articulated in the NPR report reality. As the President has said repeatedly since he first announced the National Performance Review, we want to achieve real change, not just produce an interesting report. That change will undoubtedly require a smaller Federal workforce. S. 1535 is designed to give Federal managers a set of tools to help them restructure.

On September 11, 1993, the President directed all departments and agencies to develop a streamlining plan that addressed issues raised by the NPR. The President's expectation is that one of the results of NPR management reforms will be to reduce the size of the Federal workforce. The 252,000 reduction identified by the NPR encompassed the already announced three-year reduction by 100,000 and planned DOD downsizing. Beyond that, however, the President called on the agencies to streamline their organizations by delayering—reducing the ranks of middle-managers and supervisors. NPR also pointed to bloated headquarters operations, redundant field offices, and the potential for cutting staff in personnel, procurement, and other administrative areas as opportunities for staff reductions. Beyond that, re-engineered basic work processes should result in personnel savings. Reductions will come from implementation of the streamlining plans, not by across-the-board cuts.

To meet the downsizing objectives, the agency streamlining plans must first identify organizations, structures, occupations, and processes that will be affected. It is through the planning for a reformed and improved Government that an agency will identify the categories of personnel most needed for mission accomplishment and those surplus in the reformed structure. With targeted use of the proposed voluntary separation incentive or buyouts and retraining, we hope to make the streamlining process less disruptive to agency operations, more cost-effective to implement, and minimize the need to take reduction-in-force actions. In this fiscal year, with speedy enactment, we would hope to jump-start the streamlining process and incur savings beginning in 1995 and beyond.

On October 8, 1993, Director Panetta wrote to all agencies asking for expedited action on the streamlining plans. He asked that preliminary plans be submitted to OMB by November 1 so that this planning could be better integrated with development of the President's Fiscal Year 1995 Budget. The final agency plans should be completed by the President's requested date of December 1.

Agency use of the buyout authority, as we indicated, would be subject to OMB approval of a plan for its use. That plan is the streamlining plan called for in Director Panetta's October 8 letters. We are preparing further guidance for the agencies' development of their plans, but expect that most agencies can readily proceed now based on their already intimate knowledge of their missions and customers, and aided by the findings and recommendations of the NPR.

We need the proposed legislation to increase voluntary turnover and reduce impediments to retraining. As has been reported, DOD has successfully used similar buyout authority to such an extent that the need for reductions-in-force procedures have been minimized.

The Administration strongly supports adoption of this proven approach and urges the Congress to enact S. 1535 as soon as possible.

I will be pleased to answer any questions you may have. Thank you.

Chairman GLENN. Thank you, Mr. Lader.

Before we go to Mr. Dorn, Senator Dorgan, do you have any opening statement you wanted to make before we go to Mr. Dorn?

Senator DORGAN. Mr. Chairman, I will just wait until I have a question. Thank you very much.

Chairman GLENN. Fine. Thank you very much.

I would like to also enter in the record without objection Senator Sasser's opening statement in addition to that which I already put in for Senator Stevens.

PREPARED STATEMENT OF SENATOR SASSER

Good morning, Mr. Chairman. Allow me to join you in welcoming this morning our distinguished witnesses, Jim King, the Director of the Office of Personnel Management; Philip Lader of the Office of Management and Budget; and Edwin Dorn of the Department of Defense.

Let me say that I am pleased that you and the other sponsors of S. 1535, Senators Stevens, Pryor, and Warner, have acted this promptly by introducing the legislation requested by the administration, and by holding this early hearing. The downsizing of a large workforce, like the Federal civilian employee roster, always poses serious issues of fairness and hardship. this is especially true as we begin to work our way out of last year's recession.

Fortunately, we have some experience to guide us, in the early retirement and voluntary separation incentives authorized for the Defense Department in last year's authorizations bill. Understand that the implementation of this authority has resulted in significant reductions in the defense work force, in light of the winding down of the cold war, with meaningful retraining opportunities available for remaining workers to insure that vital tasks continue to be performed. Now, the Vice President's Performance Review has recommended extending this concept to the rest of the Federal workforce.

In line with the administration's proposal, S. 1535 carries out this mandate. At the same time, it incorporates safeguards against re-employment that might confer windfalls on once-retired employees. The bill also seeks to correct the ongoing difficulty of underfunding of the retirement system, by institutionalizing agency payments to the fund for each employee who avails himself or herself of the retirement option.

It is indeed gratifying to witness early bipartisan support for carrying out the recommendations of the Vice President's commission. We should continue to cooperate with the administration to see that in the President's words, this does not become one more report that "stays on the shelf." I again commend the committee for holding this prompt hearing. I hope that it is but the first of many hearings within the committee's purview which will advance our shared goal of "reinventing government."

Thank you, Mr. Chairman.

Chairman GLENN. Mr. Dorn, welcome this morning.

Senator ROTH. First, Mr. Chairman, could we welcome Mr. Bennett who has just joined our Committee. We are delighted to have him on the minority side, as I know you are on the majority. I think his experience and background will enable him to contribute mightily to this Committee's work. It is nice to have him.

Chairman GLENN. I did not mean to ignore him. I did not see him walk in here. Do you have any statement you wanted to make before we go on?

Senator BENNETT. No, thank you, Mr. Chairman. I appreciate the opportunity to be here. I am going to have to slip out to another Committee and vote, but I will try to get back when I finish that. I look forward to the testimony we are going to receive.

Chairman GLENN. Fine. Thank you.

Mr. Dorn, we welcome your testimony. Mr. Dorn is Assistant Secretary for Personnel and Readiness, Department of Defense.

TESTIMONY OF EDWIN DORN, ASSISTANT SECRETARY FOR PERSONNEL AND READINESS, DEPARTMENT OF DEFENSE

Mr. DORN. Thank you, Mr. Chairman, members of the Committee. I am delighted to appear today to talk about the Defense Department's brief, but so far encouraging, experience with the separation program. Mr. Chairman, you and other members of this Committee were highly instrumental in giving us the tools we needed to effect a downsizing that is going to work very sensibly in terms of our management needs, but also sensitively in terms of our ability to watch out for the welfare of our people, those who

are remaining on the workforce, as well as those who are leaving. So I am very grateful to you, Mr. Chairman, to other members of the Committee, and to members of your staff for supporting us in this effort in passing separation pay incentive as part of the 1993 Defense authorization.

You authorized that program almost exactly a year ago. In early April of this year, Secretary Aspin told the Department to begin using those authorities very aggressively, and I want to explain how we go about doing it.

There are three circumstances or three reasons we use our separation incentives. One is to avoid reduction in force, which, as Mr. King mentioned, is a very blunt instrument, indeed, when it comes to reducing the size of the force. Second, we use it to find other placements for people who have been scheduled for separation. And, third, as Mr. King and Mr. Lader mentioned, it is important to use these tools to shape the force. You alluded earlier, Mr. Chairman, to the National Performance Review and the need to alter the ratio of supervisors to workers, and this is one of the tools we can use to effect that end.

Let me summarize briefly where we are during our brief experience. This year, Mr. Chairman, we have reduced the civilian workforce by nearly 70,000 people, and we have done so with only 2,000 forced separations; that is, 2,000 RIF's. Further, we have managed to effect those separations, that downsizing or rightsizing, without any adverse effect on the representation of women and minorities in the force. We could not have done those things without using the separation incentives that this Committee has provided us.

In the brief period that we have worked on this program, we have learned three important lessons, and I think they are lessons that both Mr. King and Mr. Lader alluded to earlier.

First, it is absolutely vital that we target these incentive offers. Across-the-board incentives are very risky, and, indeed, the result of an across-the-board incentive may be that we wind up hiring new people to replace people we have just asked to leave. So we need to target these things rather carefully.

Second, we have learned how very important it is for us to communicate, communicate, communicate, with supervisors and with workers. I might say in this regard that we have an opportunity under some of the changed labor-management relations encouraged by the National Performance Review to make much greater use of cooperative relations with our employee organizations so that they can help us explain to workers what is happening with the separation program.

And, third, it is very important for other organizations to stay in touch with the good people at the Office of Personnel Management who have been invaluable in supporting us and providing us the advice we need to make the program work as well as it has.

In conclusion, Mr. Chairman, our brief but encouraging experience suggests to us that the type of program we have been running can work if it is managed correctly. It can help us reduce the size of the workforce, but just as importantly, it can help us shape the workforce, to find the right balance of workers and supervisors.

Employees, we have found, support it. And when the tradeoff is involuntary separations, there really is no other viable choice.

I will be pleased to respond to your questions.

PREPARED STATEMENT OF EDWIN DORN

Mr. Chairman and Members of the Committee:

It is my great pleasure today to discuss S. 1535, the "Federal Workforce Restructuring Act of 1993". I appreciate the opportunity to share with you our experience in implementing the Separation Pay Program the Congress authorized in last year's National Defense Authorization, P.L. 102-484.

We have four major objectives in our work force reduction. They are to (1) achieve the civilian employment levels set forth in the President's Budget Submissions, (2) achieve a work force that is balanced in terms of grade and skill and which sustains the progress we have made in quality and in equal employment opportunity, (3) minimize involuntary separations, and (4) assist those few employees we may have to separate involuntarily. I am very pleased to report that with the Separation Pay Program we are achieving those objectives.

BACKGROUND

The President signed the public law authorizing our program October 23, 1992. The Secretary of Defense delegated authority to offer incentives on December 22nd. On December 30, we issued initial implementing instructions. Under those instructions, the Assistant Secretary of Defense for Force Management and Personnel retained the authority to offer separation pay.

The first use of separation pay was at Chase Field Naval Air Station in Beeville, Texas, in mid-January. Chase Field was scheduled to close at the end of January and at the time the program was approved, 79 employees were scheduled for separation. Of those, 49 were not interested in placement assistance—25 planned to retire and 24 did not want to leave the area. That left us with 30 employees to place. They were mostly firefighters, clerical or wage grade employees. We looked to nearby DOD installations and offered incentives to employees at the Naval Air Station and Defense Logistics Agency in Corpus Christi. Of the remaining 30 employees, we placed 14 into vacancies we created using incentives, and 14 through our Priority Placement Program. There were only two we could not place. This limited experience was very encouraging.

In late April, Secretary Aspin called for aggressive use of separation pay. We issued implementing instructions delegating authority to the Components and Defense Agencies. Since that time, they have authorized over 40,000 incentives. Close to 30,000 employees have been given incentives to leave. We have targeted our incentive offers to employees in occupations, grades and locations where we anticipated the-need for reduction in force or involuntary separations to reduce or shape the workforce.

At this juncture, much of the information we have is preliminary and anecdotal. Nevertheless, the results to date lead us to believe the program is working well.

RESULTS

Historically, DOD attrition averaged between 8 and 9 percent. By the fall of 1992, attrition had declined to less than 6 percent. For many years, Voluntary Early Retirement Authority (VERA) was the best tool we had to avoid reductions in force (RIF). When we first began reducing the work force in 1988 and 1989 we expected that 16 to 18 percent of VERA eligibles would take early retirement. By 1992, we were lucky to get a 4 percent take rate.

Our largest employers of civilians are our industrial activities—the Army and Air Force Materiel Commands and the Naval Shipyards and Aviation Depots. At the beginning of fiscal year 1993, each of these activities faced fiscal and workload reductions that under normal circumstances would have caused the involuntary separation of thousands of employees. Using incentives, both the Army and the Air Force Materiel Command avoided fiscal year 1993 reductions in force (RIF). While some Naval Shipyards and Aviation Depots have issued separation notices, the number of employees who may be separated was significantly lowered because of incentives. The story is the same at installation after installation.

Of the almost 30,000 employees who have taken incentives, 18 percent resigned, 45 percent took voluntary early retirement and 37 percent took optional retirement. The Components estimate that about 42 percent of the employees who are eligible for optional retirement and who have been offered an incentive will take it. About

26 percent of the early retirement eligibles who have been offered an incentive have taken it.

The average incentive taker has almost twice the years of service as the average DOD employee, 26 years compared to 15. Both early and regular retirees average 28 years of service and $25,000 per incentive. The age for early retirees is about 52 years; for regular retirees about 61 years. Those taking a resignation incentive average 15 years of service and 48 years of age. They get an average of $17,000 per incentive.

Looking at our initial data, it is apparent that those who have accepted incentives are predominately white males. The majority of takers are veterans. The average grade of the DOD population is 9.0. The average incentive taker is grade 10.

We can say unequivocally, that with incentives we have avoided thousands of involuntary separations. We also believe that where we have to run reductions in force, we will minimize the impact on women and minorities. Separation pay is cost effective. It avoids the high cost and severe effect RIF has on productivity. Our program is a success.

S. 1635

I am pleased the President has submitted the Workforce Restructuring Act and that you are giving it your speedy attention. It will ease the reductions non-Defense agencies must make in support of his initiatives and the National Performance Review. The Department of Defense fully supports the Presidents initiative. While the bulk of the bill does not apply to DOD, some provisions, such as the 9 percent fee and training changes, cover all agencies. We support these provisions. The training section will strengthen our ability to retrain employees as we reshape our workforce.

CONCLUSION

There are several cautions we would share with other agencies as they think about implementing an incentive program. First, we firmly believe agencies must target incentive offers to the groups of employees they need to reduce. Across the board offers of incentives are risky; the result may be hiring new employees to do the job of employees the agency just paid to leave. Second, communicate, communicate, communicate. The work force needs as much information as you can provide. Cooperative relationships with employee organizations can be helpful in controlling rumors and telling employees the straight facts. Third, talk to the fine staff at the Office of Personnel Management. We wouldn't have made it through this year without their constant help and advice. Share your plans with them, especially with the Retirement and Insurance Group who will process retirement applications. Forth, agencies must focus on the employees who will remain after the buyouts. They need positive attention, counseling, training and feedback. They are the ones on whom our future depends and on whom the dramatic changes envisioned by the NPR will have the most impact. Finally, call us if you have questions—we've been there!

In conclusion, let me say again that this program, managed correctly, works. It will help reduce and balance the Federal work force. Employees support it and when the trade-off is involuntary separations there is no other choice.

Chairman GLENN. Thank you.

Before we get to questions, Senator Dorgan, do you have any opening statement you wanted to make before we go to questions?

Senator DORGAN. No.

Chairman GLENN. All right. Fine. Let me start off.

I am concerned about exactly how this would operate once we get the thing going. For instance, let me lay out the basic problem here as pointed out in the NPR, as I indicated before. We point out in there that the problem in trying to have people leave Government is not clear across all the different GS levels of Government. At the lower levels, we probably could take care of it pretty much by attrition, just by not hiring as those people leave Government.

The big disjoint here has come in the middle management levels where we have a ratio of about 7 to 1 management to employees where we would like to be up around 20 to 1 or 25 to 1, as pointed out in this publication.

Now, how do we get to that, and exactly how do we accomplish that with this legislation? That, it seems to me, is something we really have to answer.

Now, I am concerned about exactly how we would do this, and I guess, Mr. King, I would ask you the question first. Do we target this so that there are specific positions, specific boxes on the organization chart that would be eliminated? Otherwise, we just kick one person out of there or give them an incentive to get out, and we put a new person in the box, and we are back at the same level again.

Do we go along with the reorganization of each department so that when we wind up at the end of this we really truly do have a new ratio, a new ratio of employees to management. If we have not accomplished that, then this whole thing is sort of an exercise in futility. If we have accomplished that over this 5-year period, the goal that was set by this was to double that ratio; in other words, make it 1 to 14 in a 5-year period.

I do not see how we are going to accomplish that unless we really target specific boxes and eliminate some of those middle management positions and decentralized Government, which this publication says we are trying to do. Do you think this will do that, and how will it do it?

Mr. KING. I would like to do it in two parts, I think, by calling on Mr. Lader to handle one of the parts, and I might handle another, if that is agreeable to the Committee.

First of all, I think that what we want to do is optimize flexibility among the managers. We all talked about accountability. When it comes time to establish accountability, it is a bit of a struggle, and I understand that.

I think the first thing is we are not giving the voluntary separation incentives across the board. This is not queue up, report with your beach chair at 3 o'clock in the morning and a sleeping bag and queue up and we are going to handle it on a first come, first served basis as you come through the door to retire you, and you are going to get a cash bonus for your retirement. That is not at all what we are talking about.

What we are talking about is having our management staff, our senior managers, in conjunction with all of our employees, start to identify jobs—not people but jobs—that are redundant. That is why you have a training component because in that process you will find people who are not ready for this program. They should be retrained for the jobs of tomorrow because currently we only train for the jobs of today or yesterday. That is one part of this.

What we are doing in each agency is giving them the authority and the ability to start a management process. We started with a construction analogy here. Let me stay with it. I understand there has been a load of bricks delivered. This is a building-block approach. How do we know the rest of the bricks will come in in a timely fashion? I do not know, but I do know that in past performance, using the Department of Defense as a good working model, that if it is prepared properly, you can reasonably anticipate the delivery in a timely fashion if it is done in a coordinated way and you have dedicated managers who are held accountable for their action.

The talk about back-filling, Mr. Chairman, is a legitimate question. What we are talking about here are full-time equivalencies, not the identical job. If you have identified a job as being redundant, you do not need it. You have retired it, if you will. We are retiring the job along with the person. It is not because they have not performed. In this new world of management, with our customer-service orientation, we are stressing how we can best deliver services to the customer within budget. And here is the key thing. I know this is where Mr. Lader will be coming in, but managing to budget is very real, at least to us in the agencies.

Chairman GLENN. I understand that, but I do not—let me ask Mr. Dorn. You have had some experience with this. Have you actually changed your ratio of managed to managers?

Mr. DORN. I cannot speak to that as a factual matter. I can tell you that we have reduced the average tenure of our workforce, which suggests to me that we have got more younger people and relatively few older people. We have not so far targeted specific grades.

However, the way the incentives work, Mr. Chairman, suggests that that ratio will change more or less automatically. These incentives result in our encouraging older, more highly tenured employees to retire because that is where the big incentive to retire is.

Chairman GLENN. Did you target these things in to the 13, 14, 15 GS level and not to the lower levels?

Mr. DORN. No, sir, we did not. Everyone is eligible. We target by organization and by job type, but we do not target by specific grade. We may need to.

Chairman GLENN. That is where the disjoint has occurred, though, and that is supposed to be one of the prime objectives of this legislation, as I understood it, to do that, and that is the reason I was happy to introduce it, to change those ratios. That is what the Vice President keeps talking about as being the big disjoint here and how we are not doing the things the same as we could in private business, wants to change that, wants to make it more efficient, wants to change those ratios.

Now, I am just curious as to exactly how this is going to change the ratios unless we do target to specific jobs and try and eliminate them, reorganize some of these wiring diagrams we have where all the middle managers are. Unless we change that, it seems to me we are just playing around with the deck chairs here.

Mr. DORN. Let me simply restate what I said earlier, Mr. Chairman, which is that the incentives are much more attractive to older and higher-grade employees. If proportionally more of them leave and we do not replace them we change those ratios.

Chairman GLENN. If we do not replace them.

Mr. DORN. That is true.

Chairman GLENN. Mr. Lader, you were going to say something a minute ago there. It seems to all this is going to wind up in your shop as to whether each agency's plan is worth anything or not, and I do not—I hope it is going to eliminate a lot of places where there are redundant managers, as Mr. King says, and get this back to a better ratio.

Five years from now, you have an objective of doubling this to making it a ratio of 14 to 1. How are we going to get there step by step with this?

Mr. LADER. Mr. Chairman, for one thing, it is not going to be done the same way in every agency. We have to look to the specific missions, responsibilities, shortcomings, and strengths of each agency, and that is the reason we have asked each to submit to OMB its specific plan.

You are correct in saying there are some 700,000 employees, about one-third of the civilian Federal workforce, who are involved in personnel, budgeting, public relations, middle management roles. We believe that a 252,000 reduction can be achieved with that group as a principal target, but not the exclusive target. And in certain agencies—and this is why individual agency head discretion is so critical—there needs to be this delicate balance.

The principal observation I would have is this, and I think all Americans can relate to this. Everyday life in America has changed dramatically over the last decade. When we go to the grocery store today, there are fewer individuals working there because we have bar codes and scanners. When we move funds around or invest, it is done by touch-tone phone. Banking is so different. We see in our everyday life in the private sector that the personnel needs of the institutions have changed dramatically, and yet the Federal Government has been left virtually untouched by this management and technological revolution that has transformed everyday life.

We at OMB, in reviewing the specific plans to be submitted by each department and agency, will be asking first: How are you addressing the span of control of supervisors versus individuals who do hands-on customer service, work delivery, analysis? We will be asking in addition to that: How does this plan reflect technological changes? We have $26 billion of information technology funds in this year's budget. How is that money being used to offset personnel costs and to allow us to do things smarter?

There is a long series of questions that we will have to be raising individually with each department and agency to address the specific concern you have to right-size, not just to downsize these agencies.

Chairman GLENN. My time is up. Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

Let me carry on with a line of discussion started by the Chairman. Will there be cutbacks in every department, or will there be some departments that will result in increased personnel because of the nature of their duties?

Mr. KING. I will tell you right now we are going to have an increase in our retirement program. I have to have more people, more process, more data computation because I am going to have a flood, and this will occur. We could identify areas where we are going to have additional workloads.

Mr. LADER. We will be discussing that.

Mr. KING. So there is an area that will go up, you know, if this legislation goes through. On the other hand, there will be other areas in our agency that will go down, and so there is a question of cross-transfer of people.

Senator ROTH. Well, agencies like yours that are going up, should this——

Mr. KING. Not agency. One section in it, Senator. I am sorry. Others will be going down.

Senator ROTH. Will there be any agencies where there will be a net increase, say, for example, EPA?

Mr. LADER. Possibly, Senator. Let me give you this illustration. Given just the differential in sizes of the agencies, for example, you know these numbers well: The Department of Defense, 976,000 employees; Veterans Affairs, 200——

Senator ROTH. Rather than go down the list——

Mr. LADER. I am not going to go down the list, but if I might, sir, just to make one point. Veterans Affairs, 200,000; the Education Department, 4,000. Not 400, 4,000.

So if, for example, if the Department of Veterans Affairs had no change in its employment rate, to achieve the 252,000 we would not have 12 percent across the board. It would have to be 15 percent across the board in the other agencies.

No one is suggesting across-the-board at all, but neither is anyone suggesting that there are winners and losers already designated. As part of this process, OMB, with the authority given by the President, will be having individual discussions with the agencies, program-by-program, as part of the fiscal year 1995 budget process. And there may well be—you raise EPA; OPM is another candidate—various candidates who show needs for specific programs to increase personnel. But for every one that increases, we have to have a decrease because the President is committed to the 12 percent reduction of the Federal workforce in 5 years.

Senator ROTH. Well, let me ask you this question. Why should the Government pay a bonus to an employee to retire if the Government is going to fill that vacancy?

Mr. KING. There are two things. We save money. It is cheaper.

Senator ROTH. How do you save money by——

Mr. KING. Because your alternative is to RIF, which in this case will run about 30 percent more in real costs. So you are way ahead of the ball game.

Senator ROTH. Won't that depend on the facts of each particular case?

Mr. KING. The average we have is about a $40,000 departure. That is the profile we have of those that leave. So if you only have one, I believe it is roughly $20,000 per year you save—you know, even if you replace. We are not replacing at the $40,000 level.

Senator ROTH. Again, I am not talking about a RIF. I am saying why should the Government pay a bonus to an employee to retire if the Government may fill the vacancy. There is no RIF'ing here.

Mr. KING. No. What I am saying is the alternative to having them voluntarily depart is to RIF. So the comparison is——

Senator ROTH. But that is not my question here.

Mr. KING. But that is the issue if I am the manager, sir.

Senator ROTH. Well, I do not understand.

Mr. KING. They are going out the door.

Senator ROTH. If you are going to keep that position filled——

Mr. KING. I am not necessarily keeping that position filled. I am talking about full-time equivalencies.

Senator ROTH. That is the example I am giving you.

Mr. KING. Well, I am not necessarily—if I declare something redundant within my agency, I am not going to refill it. What we are talking about is a very dynamic management situation, which I think Mr. Lader described. As the mission changes, there is a readjustment within the management, and what we are trying to do is provide optimal flexibility with minimum disruption at the working level, and we are doing it cheaper than the alternative, which is to RIF.

Senator ROTH. Let me go forward. Do you intend to replace some of the employees who will leave even though the goal is a reduction of 252,000 and the expectation of OMB is that only 60,000 to 100,000 will accept voluntary separation?

Mr. KING. Yes. At the end of the day, though, Senator, I have to come in to manage to my budget. I am not necessarily going to be trading off 1 for 1 or 1 for 2 or anything else. I will carry out not only the sense of the Congress, but the sense of the reality of my budget, which in many cases may be 3, 4, or 5 to 1, or 0 to 1 on replacement.

I am still managing to budget. There are a number of controls that are built into this. It is not a single control alone. It merely permits the managers to make very discrete decisions that are very important, affecting us in a very substantial way. And that is what we are looking for, is your support to do it in the most economical and least disruptive fashion.

Mr. LADER. Senator, if I might just add a quick footnote. The two principal themes, in response to your concern—and it is a very legitimate concern: managing to budget and performance, giving the individual agency heads and managers the discretion to get the job done. If that means spending more on current employees or an additional program or using part of that money for a buyout, letting the individual manager do that, but be held accountable for performance.

The second theme: no new money, no separate pot of money. All of this buyout would come from the existing allocated budget.

Senator ROTH. I want to go into that later, but my time is running out. Let me ask you this: Would you accept an amendment to preclude filling vacancies created by use of these incentives?

Mr. KING. Would you say that again? I did not hear. I am sorry, Senator.

Senator ROTH. Would you accept an amendment to preclude filling vacancies created by use of these incentives?

Mr. KING. It cuts down your flexibility, Senator, reduces the interest of managers to necessarily reduce their budgets. There is no incentive whatsoever at the managerial level.

Senator ROTH. But, you see, from our point of view, or at least from my point of view, there is concern that we will use these incentives to get rid of people, then hire new people, and there is no net savings. Why shouldn't we have some kind of limitation?

Mr. LADER. Senator, let me give this illustration of one, at the risk of being too simplistic. Pick any agency, NASA, for example. Let's assume—and I do not know if this is the case—that NASA has a high number of administrative assistants or secretaries who are close to retirement age or who are eligible for retirement. At

the same time there is a shortage of physicists, and there is a need to add some positions, people who have that background.

If, in fact, you did not have the ability to encourage more of the people who were eligible or close to eligible for retirement in the former category to leave, and have the ability to fill those positions with people with a physics background to help in that scientific effort of that agency, then you would really be impairing the agency in the accomplishment of its mission.

So we believe it is very critical that for every two buyouts no more than one of those positions can be replaced to right-size, given the needs and the missions of that agency.

Senator ROTH. If I might just carry on a minute, there was an article in one of the local papers recently talking about a similar plan that the President put into effect in the State of Arkansas. According to this article, the State plan proposed to cut nearly 1,100 State employees, which they did, but the result was that a year after the plan became effective and after the 1,100 State workers chose early retirement, the State payroll was reduced by a net of only 107 employees. According to this article, the key workers, those making the highest salaries, had been replaced by others at similar pay, but with less experience.

Now, the thing that concerns me, I am sympathetic as to what the administration says it is trying to do, but I do not want to find a year or 2 years later that we end up with very minimal change and yet we have spent a lot of money because, let's face it, this program is going to cost additional money. I think there is something like $2 billion already provided in the budget to help finance it, and then the retirement is going to net another $500 million.

So we cannot say that this is a cost-free proposal. We can only, in my judgment, justify it if we do, in fact, reduce the payroll by that 252,000 proposed in the National Performance Review. And yet what worries me is that if you leave all this so-called flexibility you are talking about, you may end up spending some pretty huge sums of money and net no right-sizing. That is the concern.

Mr. KING. New York had the same thing happen in 1983, Senator, and several other States have had that experience, including, I must add, Massachusetts. That is why this legislation that the Committee has is to prudent. It does not permit what you have suggested to happen.

Senator ROTH. You see, my concern is that there is no guarantee.

Mr. KING. Oh, there is no guarantee in anything.

Senator ROTH. There is no guarantee that there will be any reduction in——

Mr. KING. But, Senator—well, yes, the guarantee is that you cannot replace more than half the employees who leave. We are talking one out of two, so you save $20,000 automatically, on average.

Senator ROTH. Why should we pay an incentive to those that are leaving that are going to be refilled? Why do we need to——

Mr. KING. No, Senator. You have said that a couple of times, and I am sure—I know—it is because I failed to effectively communicate. We are talking about full-time equivalency, not the job. We are not refilling the job.

You asked me earlier, Senator, is the number of employees going to increase anywhere, and I raised my hand and said yes, in our

retirement area. We are going to need more people to do computer entry. I am going to be taking out people, people departing at a much higher salary, but I still can only rehire one for every two.

Senator ROTH. Would you accept an amendment to do what you are saying?

Mr. KING. It is in there.

Chairman GLENN. Senator Dorgan?

Senator DORGAN. Well, I have some other questions, but let me just stick with this issue. I do not think you are quite talking to each other. He is asking a very specific question, and it is a legitimate question. If you say you want to hire a physicist, somebody with a physics background, and you want to get rid of some administrative assistants, he is saying if you get rid of an administrative assistant, are you going to guarantee me you are not going to hire another administrative assistant? And I do not think you answered.

Mr. KING. My answer would be in my agency—now I can respond from my agency.

Senator DORGAN. But he is asking about the Government program.

Mr. KING. You cannot answer the Government, Senator—as respectful as I would like to make it, we are talking about having managers accountable. No one, no one can guarantee that to you, Senator.

Senator DORGAN. Then your answer is that you cannot guarantee him that somebody is not going to get rid of an administrative assistant, pay a bonus to do it, and then hire somebody else as an administrative assistant. And that is what he is concerned about, and I would be concerned about that as well, I might add.

Mr. LADER. Let me add as well, our Government has gotten in the less-than-optimal performance state that we find ourselves, not because of any malice of forethought, but because of the aggregate of many rules, each of which address cases of fraud, waste, abuse, and the like.

What we seek to do, as a result of the National Performance Review, is to let managers have more managerial discretion, being held accountable for budget and for performance.

Now, we have traditionally had all these specifications—GS this and GS that and job classifications—and I ask you, sir: Can any of you say that every United States Senator has identically the same qualifications or abilities? It is the mix that allows us to have the Senate perform as it does.

One administrative assistant may not be the same as another, and it may well be that there are needs in certain cases where someone who is an administrative assistant who performed the responsibilities of an administrative assistant very well as defined in the 1950's or 1960's, does not have all the skills or interests or aptitudes for the 1990's. That is a question of managerial discretion. And lest I point simply to one job classification, that could apply to physicists as well, somebody who is a physicist of the 1980's and not of the 1990's.

Senator DORGAN. Mr. Lader, the reason that we are asking the question, the reason, I am sure, Mr. Roth did, and I did, is that we are stuck with the perverse results of being in charge of the

purse strings. And if we find that we paid a lot of money to ask people to get out of here and retire and you go back and replace them with new people with less experience, we are the ones with egg on our face because we are the ones that paid for it.

Let me go on for just a minute because I want to understand a little more about why we need to do this. I was watching television some while ago, and I realized how outrageous things have gotten in our country. They were talking about a professor in New York who had obtained a favorable court decision. Because he had tenure, he could not be fired simply because he was incompetent. And it occurred to me that when we are talking about these circumstances, they were describing a system in which almost everybody has tenure. I understand the reason for that with respect to a broad range of public employees, and I support that.

But if you have upper-level management people performing a job and at some point requirements change and you no longer need that job—and Herb has been in that job for a very long while, he is making good money, has had a good career, but you do not need that job anymore—you just cannot get rid of Herb. Is that right? The current rules just make it impossible to get rid of Herb unless you buy Herb out? Does Herb have tenure here? I am talking about the upper-level management people now, which I want to talk about in more detail because I want to make sure that we are not just restructuring by getting rid of all the little folks and all the big folks keep their jobs.

Mr. KING. Well, Senator, I think first let me go back to what was originally asked and your follow-up question. The situation that occurred in New York and many other States and cities was based on the employee determining that they wished to take the early-out. They identified themselves, stepped forward, volunteered, took the cash bonus, and left. And that was the situation that created so much chaos.

What we are talking about is a managed system in which we identify jobs, not people but jobs, that are not needed within an agency. The process then goes two ways: one, if the person is a senior person and we can identify that in point of fact they can retire from that job; secondly, there may be positions in this that we identify are not needed where we should be retraining. And that is why the training provision in here is so essential. They fit together.

The process is to do what you say: to identify those jobs that are no longer necessary and then dealing with these issues in the most humane way possible, and using the talents that each of these individuals brings to that particular site. Can we harness them? Can we utilize them? And in each case, I think you will notice that we want senior managers and we want people of ability to stay. And that is what this permits us. It is a discretionary tool.

Senator DORGAN. I was looking the other day at one branch of the Armed Forces, looking at the top level, how many generals do you have versus lieutenants, second lieutenants, and what has happened since the 1970's, since the Vietnam War, with that agency. That particular branch of the service is downsizing as well, except they have not downsized the number of generals quite yet. The generals are making decisions about who else gets downsized.

Now, how do we assure ourselves that the same problem will not exist in every agency of the Federal Government? Those who make decisions about who get downsized are going to make sure that their jobs are not downsized.

Mr. KING. Senator, in my operation, we are starting at the top, and we are going to de-layer, and that is where it will start. I would like to think that we in the personnel operation will be the model agency for this country and for this Government, and we intend then to carry that forward, in our workings with the other agencies, in going through this process, and with the OMB commitment on the management to budget and the other kinds of controls. And I do not want to speak for Mr. Lader; I will yield to him. I think that the pairing fits.

Mr. DORN. Senator, may I make a couple of general comments about this line of questioning? First, Senator Roth, with respect to a question you were asking earlier about replacing one for one, that is one of the reasons it is very important to target these incentives so that, in fact, that does not happen.

Second, I want to point out that one of the things we are trying to do with this legislation and one of the things that this Committee provided us in the DOD authorization last year was much more refined tools. As Mr. King was pointing out, when one is downsizing and one's only tool is a reduction in force, you have really perverse results. You wind up bumping out your more junior people, often the most enthusiastic people in your workforce.

Senator DORGAN. Under the current rules?

Mr. DORN. Under the current rules, you wind up bumping the junior people. You wind up with an older and more highly paid workforce. That is not a desirable outcome.

There is also sort of a secondary perverse effect, which is that those more junior people are more likely to be women and minorities.

So we use these separation incentives, and one of the effects of the separation incentives in DOD so far is that the average age of the civilians in our population is about 43 years. The average age of the people taking the separation incentives is around 55 years. The average length of service of the average DOD employee is around 15 years, while the average length of service of the people taking these incentives is around 26 years.

That also indirectly, Mr. Chairman, addresses a question you had asked earlier about whether or not we were getting rid of the supervisors. These people with the 26 years of experience are, of course, our supervisors. And I also want to reassure you, Senator Roth, that at least with respect to DOD, we are coming down. We have come down by 70,000 people just in the past year. We have come down by more than 170,000 people in the past 4 years. So the chances of our playing games with this system—that is, replacing one clerk with one coming in—are very, very small, particularly because these incentives so often are aimed at organizations that are being closed out.

Chairman GLENN. Senator Stevens?

Senator ROTH. Could I just make a comment? I think that is true in the case of the Department of Defense because their funds are

going down. I am not sure that that is true in other agencies that you have that automatically policing enforcement.

If I could just follow through on one question that Senator Dorgan raised, like him I am concerned about the top people taking care of themselves. I am also concerned that Washington will take care of itself and that the cuts will be made out in the field office where the action is.

One of the things I am interested in seeing is Government brought closer to the people back home in making these decisions. I am bothered that traditionally in the past—I am not talking about what you people plan to do, but what has happened in the past is that it is the field offices that are on the front that are reduced and eliminated. In some cases, that is right, but many times, it seems to me, with modern communications the emphasis should be to bring Government to the people, to the local area. And that can be done with modern communication. But the tendency is for Washington to take care of itself.

Chairman GLENN. Senator Stevens?

Senator STEVENS. Thank you very much, Mr. Chairman. I am involved in the floor, and, gentlemen, my statement is already in the record. I am not going to make any statement. I do have a couple of questions, three, I think, and I would appreciate it if you would try to be brief so I can get back to my role on the floor.

CBO determined this bill results in direct spending and raises pay-go problems under the Budget Act. Has the OMB made a response to this? And if you have, may we have it for the record?

Mr. LADER. Yes, we have a polite disagreement with CBO for this reason: OMB takes more of a strict constructionist view of this. Essentially there are no new funds to be used, and consequently, in terms of discretionary spending, the buyout moneys would come out of the allocated budgets for the agencies. And on the mandatory side, because of the required 9 percent contribution towards the annuity base in the retirement plan, we hold at OMB that there is not a pay-go requirement there. CBO takes a different view——

Senator STEVENS. Mr. Lader, is that in writing somewhere?

Mr. LADER. Yes, sir, and I would be happy to submit it to you.

Senator STEVENS. We would like to see it in the record because I heard that there was a response, and I think we should have that.

Chairman GLENN. Submit that for the record so we can have it for the record.

Mr. LADER. Absolutely, sir.

Chairman GLENN. Without objection, it will be included in the record.

INSERT FOR THE RECORD

The voluntary separation incentive legislation permits agencies to offer financial incentives that must be funded from their existing discretionary appropriations. The legislation does not directly change retirement law. By encouraging separations, the incentive may increase retirement, but this increase is not a direct effect of the legislation. The rules for retirement remain unchanged. It has been OMB's view that the Budget Enforcement Act specifies that OMB score only the direct effects of legislation. Because OMB's scoring is used to determine the need for a sequester, the separation incentive would not trigger a sequester under the Budget Enforcement Act.

CBO takes a broader view of legislation. Where OMB places more weight on the specific wording of the legislation, CBO places more weight on the intent of legislation. As a result of CBO's emphasis on the intent of legislation, CBO views the separations, including the impact on the retirement accounts, as a direct result of the separation incentive and, hence, scores the effect as a pay-as-you-go cost.

However, any costs to the fund that result from early annuity payments and foregone employee contributions are offset by reductions in annuities and the proposed 9 percent contribution from the agency. Therefore, when considered over the longer term, this proposal is cost neutral with respect to the retirement program.

Senator ROTH. What does CBO say is the answer?

Mr. LADER. CBO's view is because this is likely to cause——

Senator STEVENS. Senator, would you mind doing that on your own time? I have got to get back now. I have three questions. I want to ask them and then go. All right?

Now, a constituent of mine suggested that another option be added: in lieu of the lump-sum incentive, to allow an employee to add 5 years of service or 5 years of age or something like that in order to reach a minimum retirement eligibility. Has the administration looked at this concept? Rather than having a cash-out, have an "eligibility out" which really phases this cost in an entirely different way. It reduces some of the budgetary impact.

Mr. King, it is nice to see you.

Mr. KING. Good seeing you, Senator. Thank you.

My colleague on my right, Senator, when we were working on the legislation, OMB was very concerned, and they said to me as an agency head, How would you manage your way out of this so that it is budget-neutral? The only way I could get it to be budget neutral was to have a short window early in my fiscal year so I could make the offer to the individual involved; if they accepted it, to have the cash come out of that current year; and, therefore, my next fiscal year, where I am facing a severe cut, another severe cut, Senator, I do not have the money to roll over and to extend unless somehow we had a trusteed fund that came out of this fiscal year and it was a set-aside.

Senator STEVENS. Well, this would merely involved an obligation of the United States generally to reimburse the retirement fund for the increases if we just patch on a 5-year service or 5-year age concept. It spread out over the retirement fund. I would urge you to look at it. When I heard about it, I thought it was a good proposal.

Let me go on to the third question, and it will be the last one. We had in Public Law 102–484 a provision which allowed employees separated in a reduction in force who are not eligible for immediate annuity to retain their Thrift Savings Plan account until retirement. As you know, I helped devise the thrift fund, and I really have great feeling for it. Under the current law, all other employees who leave Federal service before they reach retirement age must close out the thrift plan account. In most cases they are required to transfer the funds to an IRA or to an eligible retirement plan. That is an additional barrier to separation, in my judgment. If we are going to expect employees to take advantage of the opportunities for separation, the initiatives that would be authorized if this bill is enacted.

Would the administration have a position on an amendment—if you do not have one now, just give it for the record—to this bill to streamline and simplify the thrift plan system to give all partici-

pants in this plan under this bill the same choices: to leave their funds in the plan where they can continue to earn but not continue to contribute, to authorize a trustee-to-trustee rollover into an IRA or other retirement plan, or to withdraw their funds subject to the 20 percent tax withholding?

Now, I think that fear of those who are under the new system of retirement might lose that access to the thrift plan is going to be a deterrent to this early-out concept working.

Mr. KING. I would like to get back to the Senator for the record with very accurate numbers on that, and I think it might be helpful, sir.

Senator STEVENS. It really does not involve budgetary impact at all. It is a policy question.

Mr. KING. Exactly.

Senator STEVENS. I will send a request, Mr. Chairman and Senator Roth, if I may, to the thrift plan managers to see if they would have a feeling about that. But I think those who have really participated in the thrift plan would want to participate until retirement because it is now a substantial portion of retirees' projections in terms of income for the future.

Chairman GLENN. Do you want us to keep the record open for that?

Senator STEVENS. If I may.

Chairman GLENN. Without objection, the record will be kept open.

INSERT FOR THE RECORD

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
Washington, DC, October 20, 1993

Hon. TED STEVENS
Committee on Governmental Affairs, U.S. Senate,
Washington, DC.

DEAR SENATOR STEVENS: I am pleased to express our support for the extension of Thrift Savings Plan (TSP) benefits authorized under P.L. 102–484 to all TSP participants. Such a change would provide all TSP participants with the withdrawal options that are now available only to those who are eligible for immediate retirement benefits or, under P.L. 102–484, separated due to a reduction in force.

Under this approach all separating employees would be granted the same full range of withdrawal options: (1) to have the TSP transfer their account balances to an Individual Retirement Arrangement (IRA) or other eligible retirement plan, (2) to have the TSP purchase annuities for them, (3) to receive their account balances in a single payment or a series of equal payments, or (4) to retain their accounts with the TSP.

Standardizing withdrawal options would greatly simplify the TSP withdrawal program and reduce administrative costs. It would permit less complicated forms and other communications materials as well as more timely processing of withdrawal requests.

I look forward to assisting the Committee in furthering this proposal.

Sincerely,

FRANCIS X. CAVANAUGH
Executive Director.

Senator STEVENS. Thank you for your courtesy, and my apologies to you, my friend. I do have to get back to the floor.

Chairman GLENN. In the Department of Defense, I am curious as to how this worked over the past year. Do you have a breakdown? I want to come back to my original statement. We are still trying to correct this imbalance between the managers and the

lower-level employees. In DOD, do you have any figures on that? Can you give us any figures as to what positions were actually eliminated at the Department of Defense over this past year? Were there any boxes on your wiring diagram that are no longer there? Or have we just replaced people, some people left and other people moved up into that same spot again, so we basically have the same ratio?

When we talk about mid-managers, are we talking 13, 14, 15? Is that it?

Mr. DORN. That is correct, Senator.

Chairman GLENN. Do you know how many people are in DOD that fit in that category?

Mr. DORN. Senator, I will have to give you those numbers later.

Chairman GLENN. If you could supply that for the record. I would also like to have——

INSERT FOR THE RECORD

DEPARTMENT OF DEFENSE CIVILIAN EMPLOYEES
NUMBER OF GS/GM–13's, –14's, AND –15's
(December 31, 1993)

GS/GM–13	51,955
GS/GM–14	23,298
GS/GM–15	10,161
Total	85,414

Mr. DORN. As well as information on ratio changes.

Chairman GLENN. I would like to have the ratio changes. Do you have that with you this morning?

Mr. DORN. No, sir, I do not. But we can get them to you very quickly.

INSERT FOR THE RECORD

DEPARTMENT OF DEFENSE CIVILIAN EMPLOYEES—RATIO OF HIGH-GRADE EMPLOYEES TO TOTAL

	September 1992	December 1993
GS/GM–13's, –14's and –15's	88,415	85,414
Total GS/GM work force	848,301	606,497
Ratio of high-grade employees to total	1/7.3	1/7.1

Chairman GLENN. I would like to have the ratio changes, the numbers over there and how many have been reduced. And can you point to any places where boxes on your organizational chart have actually been eliminated?

Mr. DORN. Only in terms of major installations, Senator. As you know, we are closing large numbers of bases.

Chairman GLENN. Well, that is a different problem, though. That is not quite the same thing as we are talking about here. We are talking about sort of a stable Government and reorganizing it so it works better. I do not think downsizing of the military would quite——

Mr. DORN. Well, and I think you are talking about whether we have actually flattened specific organizations. Is that correct?

Chairman GLENN. Well, I am talking basically about this ratio. That is what we set out to do with the National Performance Review. We have now had a year's experience, or most of a year, over in DOD. Has it actually happened from what you have done? Because as I understand it, the legislation we are proposing here is almost identical. I do not know that there are any changes from what we did with DOD last year.

Are there any differences, Mr. King? Do you know?

Mr. KING. I do not have the exact numbers. I can get them to you. It might be helpful, Mr. Chairman, to identify that there are about 178,000 13's through 15's.

Chairman GLENN. No, I am talking about something different here.

Mr. KING. Their experience?

Chairman GLENN. No. I am talking about are there any differences in what has been proposed in this bill from what we did for DOD last year. Is it basically the same proposal?

Mr. KING. It is strikingly similar, but there are differences.

Chairman GLENN. OK. And so we would expect that if we are really going to change these ratios, which were the major focus of the NPR report, if it has had effect in DOD, it will have effect elsewhere, too. So I would like to have that information, if you would give it to us.

Mr. DORN. I will be pleased to, Senator. Let me say, to preface what we sent over that the primary purpose of the legislation you helped us secure last year, in fact, was not to change that ratio but, rather, to effect a downsizing without RIF's.

Chairman GLENN. It had some different purpose. That is right. But I think it is basically the same mechanism, anyway. And you are right. There was a different purpose to it last year, and so that is a difference.

Mr. Lader, when you are looking at plans from the different agencies and departments, I do not know whether you have set down your general guidelines for this yet or not. But I am curious as to whether you are going to target some of the boxes that are no longer necessary in organization as opposed to just giving general numbers as target objectives to each agency. Or I suppose what might work in one agency might not work in another.

But do you have any general guidelines on this thing? Because I am concerned that we really changed some of these ratios.

Mr. LADER. Mr. Chairman, that really goes to the heart of it. And if I might refer back to the similar question asked by Senator Dorgan, who also has had such a long interest in management. Our goal is not, in what may have been historic OMB fashion, to say this is the number and this is the 47 pages of how you are to accomplish that. The goal here is to be reviewing the specific plans agency-by-agency.

Now, there are some common questions that we will be asking, criteria by which plans will be found acceptable, and let me illustrate, if I might. We are going to ask to what extent is that management span of control changed, what your line of questioning has been all about. We are going to question, has further decentralization occurred as a result of your downsizing? What type of greater empowerment of line employees will result to help them, give them

more decisionmaking authority to treat taxpayers as more like customers? What mechanisms are there to hold employees accountable as a result of this change?

And as we look to the targeting, the targeting is—and I hope I have not misled by using this very simple example of two particular jobs categories—based on geography, location, roles, and missions.

For example, we will look at each plan and say, What is the change in your headquarters staff? What are the numbers and the changes in responsibilities? What is the difference in the field structure—how, as Senator Roth pointed out, because of the use of technology in HUD, it may be very different from what it is at EPA as to the role of what the regional or the local office plays. What is the impact on vertical layering? To what extent does the use of your buyouts in your specific plan, Mr. Secretary or Mr. Director, impact this layering? And, finally, what consolidation of functions has occurred?

Then the final question, which is also the first question: How has the use of these buyouts improved the performance of your agency?

Now, that is the headline version. There will be many more specific questions. But that is the type of prism, if you will, or matrix through which each of these plans will be screened so that we can try to make sure that the buyouts are being utilized not just for downsizing but for right-sizing in the most contemporary sense of better management.

Chairman GLENN. The yellow light is on there. My time is almost out, but maybe you could answer this question briefly. Did you consider something along the lines of altering the severance pay and doing something like that, which got over into a little bit of what Senator Stevens was talking about, I guess. Did you consider that as opposed to the buyout?

Mr. KING. We stayed within the framework and the experience of the Department of Defense, and we said, quite frankly, in a minimalistic way: How can we effect the outcome—that is, the voluntary acceptance and the voluntary departure—with minimum cost? And what you are seeing is that exact figure. We can be more generous in any category. I have a generous spirit in and of myself, Mr. Chairman.

Chairman GLENN. OK. Well, I want to see the figures on the Department of Defense because our objective here is one thing, and I am not getting the figures from the Department of Defense that it has worked along that line. If it has not, if we just replaced people in boxes and all that has remained the same, why, we have not done a whole heck of a lot here. So we can point the numbers of people out, but if there are numbers of people in, then the net is not so good there.

Anyway, Senator Roth?

Senator ROTH. I do not want to spend a lot of time on the line of questioning I had before, except to say that one of the things that bothers me about this proposed legislation is that in reduction of goals, all we say is that it is the sense of Congress that employment in the executive branch should be reduced by not less than one full-time equivalent for every two who are bought out. So that really does not say anything. It expresses a hope.

I can only say, as one Senator, that I am for right-sizing, but before I can support any legislation, I am going to have to be assured that there is some kind of statement or provision in the legislation that will ensure that when we get through that there truly is right-sizing. So I just want to make that comment.

I would like to go back to the question Senator Stevens raised because, as I understand it, CBO has taken an entirely different position, Mr. Lader, from OMB as to what the costs would be. Would you explain that?

Mr. LADER. Yes. Again, it is because of OMB's strict constructionist view of this. It is our view that unless specific legislation automatically requires something, then it is not scored accordingly.

Now, it is our expectation, the intent of this legislation, that there will be an increasing number of people leaving the Government; therefore, there will be an acceleration of the required payments of the annuities.

Now, we feel from a common-sense perspective that that is certainly covered because of the legislation's requirement that there be a 9 percent contribution for each individual under this buyout to go towards making up that potential difference in the retirement plan.

Senator ROTH. The 9 percent intergovernmental transfer would offset $273 million of the additional direct costs and spending, which I think is supposed to be $792 million. So, consequently, $519 million in direct spending would occur if this bill is passed, according to CBO.

Now, we have the pay-as-you-go requirement under the 1990 Budget Act. What cuts in mandatory spending are you going to suggest to pay for this bill, or would you seek to persuade members to waive the Budget Act points of order by offsetting discretionary spending cuts in the upcoming rescission package to offset the costs?

Mr. LADER. Two points, sir. First, even CBO in its letter acknowledges that the contribution, that 9 percent up front contribution will cover, over the long-term, the additional cost of the early retirement annuity. And there is a time line there, as you know, as to when those payments are made in the retirement history of the individuals.

The second point, though, is there is no need for further contribution because the 9 percent was based on the 1975 through 1989 14-year experience in actuarial terms of the Civil Service Retirement System. So it is believed that that 9 percent contribution will adequately cover the expenditure on the mandatory side. Consequently, we at OMB do not believe that there is a need for a pay-as-you-go sequester in that regard.

Senator ROTH. But that is not the case with CBO.

Mr. LADER. CBO differs on how that scoring occurs, but CBO does not differ that there is no requirement for additional new moneys.

Senator ROTH. If this legislation is written into law, how many employees will voluntarily leave, do you estimate?

Mr. LADER. OPM can address that.

Mr. KING. Our estimate is 50,000 to 60,000.

Senator ROTH. How do you intend to bring about the additional reductions for the total of 252,000?

Mr. KING. Well, we continue. I think the announcement was that this would not be over until 1999. What this does is to permit the management of the attrition so you have this, if you would, shot in the arm and stabilization within the agencies. You get the opportunity to manage it in a little different fashion, and in this process, I believe, you get yourself and your regular attrition back to where it should be. And you can manage to this figure very, very reasonably. We hope to do it in our agency considerably sooner than 1999.

Senator ROTH. But you will rely, then, on attrition?

Mr. KING. Attrition, heavily. Now, there may be instances where you must go beyond that, Senator, but I must say that the commitment we have is to attrition.

Senator ROTH. One of the questions I have is, in downsizing so quickly, part of the problem of management is, of course, to deal with the many complicated rules and regulations, personnel rules and regulations. I think the Vice President had piles of them to show. How are you going to take action on those rules and regulations in time to meet the goals of this proposed legislation? Can you revise those personnel rules by November 1st?

Mr. KING. We do not have to revise all 10,000 pages, Senator. I think what we can do is—can we accommodate this? The answer is yes.

Senator ROTH. How? Doesn't it take legislative——

Mr. KING. It does not run counter. It is—I am sorry.

Senator ROTH. Doesn't it take legislative action to really eliminate many of these rules and regulations?

Mr. KING. Oh, we will come back with those, Senator, but there are an awful lot in there that are regulations, interpretations, past practices that have been codified. We are going through it as we speak, page by page, chapter by chapter, and we would hope to have a report back to the Congress and to the President in a reasonable time, no later than March.

Senator ROTH. In a sense, though, don't you need the elimination of those rules and regulations prior to the reduction of many of these management personnel who are responsible for——

Mr. KING. I do not think so. I can say in my agency, no.

Senator ROTH. How are you going to comply with those rules and regulations if you do not have——

Mr. KING. This is voluntary, sir.

Senator ROTH. I realize those that leave are voluntary, but aren't many of those personnel involved in administering those complex rules and regulations?

Mr. KING. I do not know because I do not know how they are going to manage. On the one hand, they are talking about wanting to be detailed from OPM, the various personnel prerogatives. They are going to need people to do that, I presume. They will need personnelists to do it within their own agency. That is why the agencies, each agency has its own needs, and that is why I would like to have them determined at that level rather than at some universal level, but have people accountable. And that is why, can-

didly, as you know, Senator, these hearings are so helpful. The message goes out.

Chairman GLENN. Senator Dorgan?

Senator DORGAN. I understand what these hearings are about, and I share the goal you have. I am a bit skeptical that we overcome the natural tendency of organizations here. I studied Parkinson's laws in graduate school about how organizations work, especially governments. I guess I must ask the question, if we think—and I happen to think—that organizations at the top in Government are some of the most bloated, inefficient, overstaffed organizations I have ever seen—and I think that because last year, going through a waste report, I looked at staffing levels of virtually every agency in the Federal Government. How many people did this agency have in legislative affairs? And you look over to legislative affairs in this little agency, and you find 32 people. And you go, holy cow, how do you get 32 people in legislative affairs? How about public affairs? You find a couple of hundred people in this agency, and you wonder, how on earth could that happen?

So I think there is an enormous amount of waste and inefficiency and bureaucracy at the top that is nailed in. And the question I have is: What gives you confidence that when we do this we are going to have an impact in really cutting the bureaucracy where it exists?

Mr. Roth keeps asking the question, if we buy out somebody and you say we are buying out a job, not a person, we are going to eliminate this position, this job, how do you know they are not simply going to replace that person in that job? You say because we are going to incentivize the managers to make those decisions. But what gives you confidence that they are not going to just behave the way Government always behaves?

Mr. KING. Well, I think, Senator—I am facing a 4 percent cut this year. I am now into that fiscal year. I will receive another 8 percent cut next October 1. So when I am talking about management to budget, sir, it is not theoretical. I have to make a decision that if I wish to keep a particular function, whatever it is, I have to trade off something else.

It is no longer the game, the shell game, lots of smoke, lots of mirrors, and Oz talking to you. We are now real.

Senator DORGAN. But is it not easier to decide to stretch out 24 or 48 hours the Social Security processing goal as opposed to losing 3 or 4 people that are comfortable around you every day? I mean, I do not understand how you trade off to make sure that what happens is what we want to happen, that you do not sacrifice service but instead we try to cut back on the overstaffing at the upper levels of agencies.

Mr. KING. Right now Apple, which was considered one of the better managed high-tech firms, is cutting back 15,000 people. Does that mean that Apple has had an incompetent management team? I would submit no. They are facing a new set of realities, a new set of budgets.

IBM, when we were talking about having tenured employment, IBM and the telephone company probably were the closest to tenure of civil service in my lifetime, sir. And I do not think anyone

would submit at this moment that that is true today. And I am talking about major cutbacks.

The question you raise, then, is: What are the incentives, then, for senior managers to carry out their responsibilities to the American public and to their own organization? And I would like to submit that what we are going to do is hold people accountable. That is what Mr. Lader is telling us, and I am taking him at his word because I think he is a lot tougher than most people understand.

Mr. LADER. Senator, let me add two points. This matter of Government public management reform is really a seamless web. I learned only a few weeks ago that the Environmental Protection Agency is subject to the scrutiny of 80 separate committees and subcommittees of the Congress. When you look at the legislative affairs staff at the Environmental Protection Agency—and I have no idea how many people are there at this point—one has to take into account how all of us, the legislative and the executive branch, need to be very serious about the matter of the right-sizing of the Government.

The second point is this: As Mr. King pointed out, the specific plans to be submitted by each agency will be reviewed by OMB. But the real accountability continues to be in the budget, managing to budget. Under the Budget Enforcement Act, we are having what is effectively a 10 percent reduction in all other discretionary spending next year to fund the President's investment programs in 1995. That is a fact of life. And if individual managers are seeking to keep the same number of employees, if they are seeking to use these buyouts and simply replace with other individuals of the same category, then that is very imprudent management. And, Senator Dorgan, you are very correct that it is human nature to make mistakes, and there will be mistakes. But we are hoping that the combined emphasis of the Congress and of this administration to greater attention to public management will result in greater accountability and performance.

Senator DORGAN. Thank you very much. Let me say I have great confidence in the three of you. I think you all come to these positions with substantial backgrounds. And I am encouraged by what we are talking about. Just talking about this issue is a breath of fresh air, and we need to make some changes. I would encourage you all to read in the memory of recently departed C. Northcott Parkinson some of his missives. Let me just leave you with one, Mr. Chairman. He described an inverse relationship in war between the number of enemy killed on one side and the number of generals on the other.

Thank you very much. Mr. Chairman, thank you.

Chairman GLENN. Thank you, Senator Dorgan.

The disagreement between CBO and OMB was discussed earlier. Are there efforts made, are you talking to those people at CBO to try and resolve this? If we do not resolve it some way or get some kind of agreement on this, it means what we are faced with here is going to the floor with this, when it goes, and trying to get a budget waiver, and that requires 60 votes, and that gets tougher. Either that, or put something in this bill which would give us that waiver in advance of going to the floor. A much preferable way

would be for you and CBO to come to some agreement. Is there any activity along that line?

Mr. LADER. Well, Leon Panetta and I will be addressing this with the appropriate individuals there, but I would hope that a question of scoring like this does not defeat something which common sense would point out is not costing additional funds and helps to improve the performance of our Federal Government.

I should say, Mr. Chairman, too, you notice that Dr. Northcott Parkinson, Parkinson's laws, did not have any comment about the percentage of colonels to the success in warfare. So at least the Senator was very prudent in his reference.

Chairman GLENN. One thing I think that we need so that we can gauge this and try and put our judgment on it as to how effective we think the legislation will be, one thing we need is historically what have the attrition rates have been by different GS levels. I think that is very important because that is what we are talking about, changing those ratios. That is the basic purpose of this. And unless we have those to know what the attrition——

Mr. KING. We can get that for the record.

Chairman GLENN. That we have to have so we can judge what can be taken care of just by attrition, at what levels, even though attrition levels overall are down to a fairly low level right now. But I think if we had those going back a number of years, I think that would help us, and do it by the different GS levels.

INSERT FOR THE RECORD

SEPARATION RATES OF CIVILIAN EMPLOYEES OF THE DEPARTMENT OF DEFENSE, FY 1993[1]

Grade level	Number of employees	Separation rate[2] (percent)
GS–1	78	29.5
GS–2	642	23.1
GS–3	9,733	11.9
GS–4	43,411	10.1
GS–5	79,746	8.7
GS–6	45,370	7.3
GS–7	56,968	7.8
GS–8	10,668	7.9
GS–9	69,147	8.1
GS–10	6,705	10.6
GS–11	99,719	7.3
GS–12	115,867	5.9
GS/GM–13	53,576	5.8
GS/GM–14	24,227	5.8
GS/GM–15	10,275	6.8
Total	626,132	7.5

[1] Full-time permanent employees only.
[2] Excludes transfers out to other federal jobs.

Chairman GLENN. Then you were going to get some information on that, Mr. Dorn, I believe, to see what the experience has been over there so that we have maybe a little track record on that for the past year.

Mr. DORN. Yes, sir, we will.

Chairman GLENN. All right. Good.

Mr. KING. Mr. Chairman, in order for clarification of records, and I understand this is—would the Department of Defense know whether the unit was being closed down entirely or what percent-

age of the unit was being reduced so it would be of help? Otherwise, you might be left with apples and oranges.

Chairman GLENN. You are not coming at it from the same base unless we do have some of that kind of information. I think you are right. So as much as you can provide as to where some of these things came from, because I do not think the DOD experience is directly applicable to all of Government because you have been in a different situation the last year or so.

Mr. DORN. That is right, Senator. As I said earlier, we started with a different goal in mind, which was merely to avoid these involuntary separations. But we can tell you a lot about what the effect has been on grade structure.

Chairman GLENN. Mr. Lader, are you also looking for or hoping that different departments and agencies will come in with a really different organizational plan so that we really restructure some of these agencies? Are you looking for that?

Mr. LADER. Program by program, yes, over the mid- and long-term. I think it is unrealistic, Mr. Chairman, to expect that for fiscal year 1995 there is a major revision of the organization of a particular agency or department. But we are looking in these plans for not only, as you suggest, the de-layering, the thinning of the headquarters staff, close attention to the respective use of regional and field offices, but also fundamental reorganization which is used in the business sector today as business process re-engineering, a very close attention to administrative processes and how the job should get done differently. Over the mid term, 2 to 4 years, we believe that can be accomplished.

Chairman GLENN. Well, will you be looking particularly for agencies to come back in, then, with a reorganization structure? I am not sure I understood your answer there. You said we want to—in other words, we have talked a lot about taking the end product, and we are going to gauge the end product out here. Are we delivering better services to the American people with fewer people? So you start with that out here. What is the service we want to perform? Then you back up and say how many people does it take to do that.

It seems to me in many agencies or departments that would mean people have to take a whole new look at how they are organized.

Mr. LADER. We agree, Mr. Chairman. What we are saying, however, is we are not asking every agency to revise its organization chart because moving boxes sometimes is not a very cost-effective means of changing the organization. We believe that for certain programs, bureaus, agencies, that may be appropriate and we will be encouraging it. And we are certainly going to put them to the test of what reorganization have you undertaken. But I do not want to represent to you that OMB is requiring that there is a drastic reorganization.

Chairman GLENN. No. I did not mean that. But if agencies want to take that on, you would welcome that, I trust.

Mr. LADER. It would be encouraged.

Chairman GLENN. For instance, Mr. King said he is going to delayer starting at the top. Now, what do you have as your objective

there within OPM? Maybe that is not a typical agency of Government.

Mr. KING. Fewer people and a lower budget. And I think I can give better service by doing that.

Chairman GLENN. All right. Now, maybe you do not have the field organizations where you can disperse some of these things out, but maybe you do. Do you plan to do some of that within your agency?

Mr. KING. I would like to make my field operation far more entrepreneurial. I have a number of areas within my agency where I believe I can see the services. I intend to go out there and aggressively sell. I do not think there is anything wrong with free enterprise in Government.

Chairman GLENN. Do you have a target ratio just within your own organization that you hope to hit within the next year, 1, 2, 3, 4, 5 years——

Mr. KING. The lowest number you would accept, Mr. Chairman.

Chairman GLENN. I am sorry?

Mr. KING. The lowest number you would accept, Mr. Chairman. [Laughter.]

Chairman GLENN. Well, I am looking for about a 20 to 1 ratio in OMB next year, if you want me to set a figure for you.

Mr. KING. No, we have—we believe that we have more than abundant supervisors.

Chairman GLENN. Do you know what your ratio is right now of managers to workers at the lower levels, the 13, 14, 15's to lower levels within OMB itself?

Mr. KING. I do not have the exact numbers. I can get them for you.

Chairman GLENN. If you can get them for us for the record, because where you start from obviously is——

Mr. KING. Oh, yes.

Chairman GLENN. For all of Government you have an objective of doubling within 5 years.

Mr. KING. Right.

Chairman GLENN. I trust that would mean we are going to try and upgrade one notch per year at least through here, from this 7 to 1 ratio we have. At the end of this time period, shouldn't we expect to be somewhere between 12 and 14?

Mr. KING. I would like to come back next year, and as we explore, as we go through the budget process, I am certainly going to be pointing to that and exploring it fully. That is certainly consistent with——

Chairman GLENN. Because that is going to be our yardstick, I think, that we measure both of these things. That is the objective you set up in the NPR, and it is the objective we are going to want to talk about here because I really think you are on the right track with changing the ratios. But how you do it is something else again, and that is what we are all about here today.

Mr. LADER. Mr. Chairman, if I might respectfully make one correction. The best data that have been presented to the National Performance Review that I have seen suggest that in the private sector the ratio of major corporations is 1 to 15 compared to 1 to 7 in the Federal Government. So you are right, there is vast im-

provement required, but 1 to 20 or 1 to 25 as has been referenced earlier, frankly may be less than productive in terms of the need for accountability.

Chairman GLENN. I understand that, and it gets into another question I have. But my time is up right now. Senator Roth?

Senator ROTH. First of all, Mr. Chairman, I would like to have in the record both the estimates of CBO and OMB as to the cost of this legislation.

INSERT FOR THE RECORD

The agency payments for the voluntary separation incentive would be made from appropriations within the discretionary caps. The separation incentives would require no additional budget resources. For this reason, OMB would not score any discretionary costs associated with this bill.

Furthermore, the bill would not change retirement law and hence would not be scored for pay-as-you-go purposes. By encouraging separations, the incentive may increase retirement, but this increase is not a direct effect of the legislation. The rules for retirement remain unchanged. It has been OMB's view that the Budget Enforcement Act specifies the OMB score only the direct effects of legislation. Because OMB's scoring is used to determine the need for a sequester, the separation incentive would not trigger a sequester under the Budget Enforcement Act.

However, any costs to the retirement fund that result from early annuity payments and foregone employee contributions are offset by reductions in annuities and the proposed 9 percent contribution from the agency. Therefore, when considered over the longer term, this proposal is cost neutral with respect to the retirement program.

Senator ROTH. Secondly, Mr. Lader, as I understand the position of the administration, it is that we should rely on the budget, the reductions of the budget to ensure the reduction in personnel. You talk about a 10 percent reduction next year. A 10 percent in the budget from what?

Mr. LADER. I am simply saying under the Budget Enforcement Act, as we are dealing with what is the practical impact for each Secretary or Director of an agency, planning their internal budget. And Mr. King can speak to the example of OPM, for example. There are fewer dollars that that agency has to manage with.

Senator ROTH. You specifically used earlier the figure a 10 percent reduction in budget.

Mr. LADER. Simply referred to under the Budget Enforcement Act. The caps would require something to the amount of about a 10 percent of other discretionary spending in order to fund the President's investment programs in 1995.

Senator ROTH. But nobody really knows what is going to happen to discretionary budgets in the future, do they?

Mr. LADER. The last 9 months——

Senator ROTH. We still have to act on those for each year.

Mr. LADER. That is right, and even next week we will be coming back with a package, as you know, to address even further this administration's desire to reduce Government spending.

Senator ROTH. Although many of those budgets are in excess of inflation that has been enacted by Congress to date. Isn't that correct?

Mr. LADER. To the extent of my knowledge.

Senator ROTH. Let me ask you, Mr. King, in your testimony you note that normal attrition rates have recently fallen from 17 percent to less than 5 percent in fiscal year 1991, 1992. You go on to

say that clearly an inducement is needed to encourage retirements at this time.

Why, in your opinion, have retirements fallen off so dramatically?

Mr. KING. I think there are a couple of things, Senator. I think the economy has contributed to it. I do not think people feel as comfortable going out. I think there is a general uncertainty. I think the business page yesterday or the past few days has indicated, you know, the uncertainty of the entire labor force. We are talking about stress and everything else.

We are talking about many individuals who historically had gone out into the private sector at a given age, taken their retirement, and still continued to do productive work. For example, in our agency, for investigators, we used to have a very substantial number of investigators turning over on a regular basis, Senator. Virtually no one has left our investigative unit this past year. We used to have a very, very substantial number turn over.

What we are able to see firsthand or I am able to see firsthand is that the jobs are not out there. The job salaries are not out there. The kinds of conditions, the stability in the benefits are not out there. And so the combination of those ingredients has led to the kind of stability we are seeing, and this basically is the pump primer that we have seen work.

Senator ROTH. There could be two additional factors. You know, there have been rumors, of course, around the agencies that this kind of a buyout is going to take place. How much of an impact has that had?

Mr. KING. Oh, I think it has an impact, Senator. There is no question. On the other hand, I just went to a gentleman to say farewell up in Pennsylvania who retired just a few weeks ago who had been with the Government almost 30 years. So it affects some, and it does not affect others.

People act in what they view as their own best interest, but, Senator, as you have noted and noted quite clearly, it has dropped to 5 percent or a little below now for the past few years. I am not sure whether everyone, you know, has waited merely for this opportunity, although I would be less than candid, Senator, if I did not think that there is a pent-up reserve that has hung in the last year.

Senator ROTH. Also, do you expect a large turnover next year because Senior Executive Service employees will have the high 3? In other words, do you estimate the number of people who have delayed retirement in order to qualify for a larger so-called high 3 retirement benefit as a result of the 1990 pay raise?

Mr. KING. That is ever an excellent question, Senator. It was funny. My very first reading prior to coming to this job was a document that had been produced, I think it was from GAO, telling us about that we should anticipate one-third of our senior executives retiring already this year. I think that was the second year in a row they wrote that particular item. It has not happened.

There is pent-up interest that we believe is there, but it has not happened. But according to every statistic and the numbers and everything else, Senator, your observation is not only valid, it appears to be exactly right.

Senator ROTH. The 3 years, of course, are not up until next January.

Let me ask you a question about RIF. I believe you characterized the use of separation incentives as a more humane way. Is there something we should be doing to reform RIFs if they are not humane?

Mr. KING. I think anyone losing their job at any time, it is a trauma. I think every psychological report I have seen equates it with death or divorce, etc. So that it is a trauma. I believe there was just a study out talking about the stress related to job violence in the private sector. I believe 730 people were killed just last year because of the acting out of this kind of stress within the workplace. And what we are suggesting here, is there a better way to do it and an economical way to do it, and I believe this is it.

Senator ROTH. In other words, you are having volunteers here in contrast to——

Mr. KING. Yes. That is it exactly, Senator.

Senator ROTH. Let me ask you about employee pay-back of the incentive. What if an employee accepts the voluntary separation incentive and returns to executive branch employment within 5 years? What rights does the Federal Government have to recover this incentive?

Mr. KING. They are not supposed to be hired unless either they or the agency pays the full amount back.

Senator ROTH. If I recall right, don't you retain some rights to make an exception? Let's say you need someone. Can he be hired back?

Mr. KING. Sure. This is a safety valve, as you know, Senator. If there were some pressing, really serious, emergency or time gap where you needed somebody on this basis, you have to document it and then act. This safety valve is not intended to be used except in an emergency.

Senator ROTH. But the Government would have no rights to recover the incentive if they come back?

Mr. KING. We could waive the repayment requirement if the employment is in a position for which there is exceptional difficulty in recruiting a qualified employee. The head of the agency would have to request a waiver and document the shortage of qualified applicants.

Senator ROTH. Mr. Chairman, could I ask you that we keep the record open so that we can submit questions in writing?

Chairman GLENN. Yes, sure. We keep it open 10 days. Would that be OK, or do you want more?

Senator ROTH. That is fine. Thank you.

Chairman GLENN. Fine. Ten days.

Senator Pryor has joined us. I was just about to ask unanimous consent that his statement that he wanted included in the record be included, and it will be without objection.

Senator PRYOR. Thank you, Mr. Chairman.

PREPARED STATEMENT OF SENATOR PRYOR

I am pleased to be a cosponsor of S. 1535, the Federal Workforce Restructuring Act of 1993, and I thank the Chairman for holding these hearings today. The bill, recommended by the National Performance Review, would establish separation in-

centives or buyouts to help soften the impact of eliminating 252,000 Federal jobs over the next 5 years.

There has been a lot of discussion about the origin of this number in the last week. As I understand it, it is a target which includes the 140,000 Federal jobs that Congress has already decided to cut in this year's deficit reduction measure. The 252,000 also includes the DOD civilian workforce reductions which are already underway. In a more global sense, it means an increase in productivity for a trimmer Federal workforce of about 2 percent per year—not an unreasonable expectation!

Simply offering early retirements to encourage voluntary separations will not achieve the reduction recommended by NPR nor the estimated budget savings of $108 billion over 5 years. Less than 5 percent of eligible employees took the early retirement option in 1991 and 1992. However, early retirement plus some type of incentive has encouraged 20 percent of eligible DOD employees; 26 percent of eligible Postal employees; and 38 percent of eligible Office of Thrift Supervision employees to elect retirement. This experience shows that incentives work. They also minimize the use of reductions in force which could disproportionately affect women and minorities. There should be no surprise that incentives work because the private sector has been using them for years.

As with all legislation, some refinements in the bill may be necessary to ensure that the Federal workforce reductions are meaningful while preserving a quality workforce for the future. Planning is vital and the program's overall success will depend on how well each agency can manage and shape its workforce. Otherwise, we may end up wasting taxpayers' dollars by hiring new employees to fill key vacancies or, worse yet, hiring contractors and consultants to fill the void. We also need to determine whether some safeguards are needed to protect employees from being coerced into resigning or retiring. We need to explore whether each agency will be able to provide employees with the advice they need in order to make an informed decision. Finally, as an inducement for retirees to take the incentives, we may want to consider deferring the payment of the buyout or the payment of unused annual leave for one year to alleviate the tax effect.

Another issue of concern is that CBO has determined that there is a "pay as you go" problem with the bill, although OMB disagrees. The problem is allegedly caused by increasing the payouts from the Retirement Fund by increasing the number of employees who leave the payroll and begin their annuities earlier than anticipated. In other words, decreasing the number of Federal employees costs money even though an annuity is obviously less than the salary the retiree received. Once again, the budget rules make no sense. Even Senator Roth's early out bill, which does not include incentive payments, has a "pay as you go" problem.

When I visited civilian employees at Eaker Air Force Base in Blytheville, Arkansas, in February 1992, who were facing the closing of their base, it became clear to me that preventive measures were needed to help DOD employees avoid layoffs. I am pleased to have worked with DOD in designing the- separation incentives on which S. 1535 is modeled. DOD first offered separation incentives on January 19, 1993, and, since then, nearly 30,000 employees have left the Department avoiding thousands of involuntary separations.

I look forward to this morning's hearing and working with Senator Glenn and others on this legislation.

Chairman GLENN. Did you want to go, or do you want me to go ahead?

Senator PRYOR. No, go ahead.

Chairman GLENN. Fine. I was about to ask a question on behalf of Senator Pryor, one that I knew that he would ask if was here. I will not do that. I will let him do it himself. He has been a real tiger on this particular one through the year. I will let him ask that one.

This is a 1-year bill, right?

Mr. KING. Yes, sir.

Chairman GLENN. Now, we are already pretty well into this quarter here, so we are beginning to lose time. By the time we get this thing through, if we get it through this year—and I certainly hope we do—it seems to me we are going to get caught a little short on time. Should we be making this a multi-year effort, or is

BEST COPY AVAILABLE

there some addition we would make since we are now encroaching on the time we had hoped this would be effective?

Mr. KING. I know in my agency I have taken a look. If I know that the authority is coming and I have it prior to the 1st of the year—I need it sooner if I can, but if I know it is definitely coming, for me the break date is basically the 30th of January. Anyone I can get into that window—and that is why I was asking that 90 days not be made compulsory, but 90 days be the optimal window. In my case, in order to maintain it within the context of what Mr. Lader has said—that is, that it be budget-neutral, and that I absorb it within my budget this fiscal year—for most of the people to whom I might be able to make this offer, it would have to be done by the 30th of January.

Chairman GLENN. Mr. Lader, you have had a lot of experience in management matters. What do you think? Can we do this in this time period of only 9 months if we got this thing passed? Or should we be stretching it out a little?

Mr. LADER. A more idealistic situation, we would want to stretch it out and have far more deliberation and more detailed planning. But given the urgency and given the fact that all of these matters are inter-related—the reduction of internal regulations, the improvement of customer service, the downsizing, right-sizing—it is really very important that we give it immediate attention and get this passed as soon as possible.

As Mr. King has pointed out, even though there is the 90-day window in this period, it is possible for the targeted jobs to be addressed for the separation to occur in the next fiscal year. And so there is management discretion in that, and we believe that as presented, if it is passed as soon as possible, it will serve our management objectives.

Chairman GLENN. Would it help if we made this a year from enactment?

Mr. KING. It would kill me if you are saying a year from enactment, because I have got a fiscal year. This gentleman on my right—I was going to refer to him in less complimentary terms, but I am still managing to budget my own agency. I have got to tidy my little house up and have it tidy to take my next cut. And what I would like to do is I would like to front-end-load——

Chairman GLENN. Well, let me take a worst-case scenario here and say we do not get this thing through before the end of the year, and we are still working on it, and we come back in in January and get it through, and it is March or something. You have lost 2 quarters. I was thinking of giving you a year to do all these buyouts and things rather than tying it to a fiscal year.

Mr. LADER. Mr. Chairman, we would not be as pleased with that for this reason: I think we owe it to the families of the many Federal workers who have to deal with whether this applies to them or not. We have to take into account the managers who want to improve the performance of the agencies. And as you know, this period of ambiguity, if you stretch it out for an additional 12 months, would make management far more difficult and make the home life and personal planning of these families much more difficult. So I would urge the Committee, like my drill sergeant said when I was in the Army, "Son, run not as fast as you could, but run as fast

as you wish you could." And I hope that is the kind of action the Congress will be taking on this legislation.

Chairman GLENN. Well, I hope so, too, and I appreciate your concern for the families, and I think that is a real concern, something we ought to consider. I am on your side on this. I was trying to give you a little bit more time to accomplish it rather than tighten up on it. That is all.

OK. Senator Pryor?

Senator PRYOR. Yes, thank you, Senator Glenn, Mr. Chairman. I apologize for not being here today. I am proud to be a cosponsor of S. 1535, Mr. Chairman, with you. I am pleased to have worked closely with you and your staff on this concept. It has been a real pleasure to also work with Mr. King, Mr. Lader, Mr. Dorn, and others in developing this concept.

Mr. Chairman, I apologize I have not been here this morning. I have been in a Finance Committee meeting, and I may have to return to the Finance Committee momentarily. I understand there has been a lively discussion on the number of 252,000 people.

In a more global sense, I think what we are going to end up with when we finish this—and it is not going to be easy, it is not going to be quick—is a more productive Federal workforce. I think this is healthy, and I think our taxpayers out there would certainly think it made good sense because, after all, they are paying for these services, anyway.

The concern that I have had, Mr. Chairman, all along with the development of this bill—is that we may reach that point, when finally the managers and the agency directors say, wait a minute, we have cut our workforce back so deeply, that now we have to go out and hire contractors and consultants to do this work to replace them.

I hope that we are not going to fall into that trap. This is a practice that has become all too much a part of the modus operandi of our Federal workforce, and even our State workforces out there. There is a great trend now throughout the whole public sector to let public employees go and to replace them with private contractors who are basically unresponsive. This is a very grave problem, I think, in the esprit de corps, the feeling that the employees have for not only their position but certainly their worth, and sometimes, of course, their lack of worth.

Mr. Chairman, I just wanted to make those comments, and I would like to have the opportunity to follow on with some questions.

Chairman GLENN. That would be fine.

Senator PRYOR. If you would keep the hearing record open.

Chairman GLENN. The hearing record will be kept open.

Senator PRYOR. Thank you. I thank the panel.

Chairman GLENN. His comment on contracting out is what I was going to do on behalf if he had not arrived. He has been on this subject for a long time, and with good cause.

One other question here. Do you foresee the possibility that any of these buyout offers would be made in an agency or an agency manager would make an offer to someone who, in effect, is dead wood, is not performing in the agency, and get them out of the way

so you could get a more efficient manager in that place? Is that another use of this?

Mr. LADER. Again, we emphasize this legislation is targeting buyouts at positions, not at individuals. And so the specific goal is to look at the geographic, the mission of that particular bureau or agency, and the like, but not to look to the performance of individuals. To the extent that there is a different need of skills that is targeted, that is permissible, but not to look to individuals. But Mr. King probably could add to that.

Mr. KING. Well, as you have suggested, the tree of Government will be pruned. I am assuming the pruning will be live wood and dead wood that will fall to the base of it. I do not think it is the intent to do strictly dead wood. I think we are talking about pruning the entire orchard so we can have a better crop next year.

Chairman GLENN. All right. Good. Maybe that is a good way to end this whole thing this morning here unless you have anything else. Senator Pryor, do you have any other questions?

Senator PRYOR. No.

Chairman GLENN. Any additional comments, Mr. Dorn? You committed to several pieces of information here to get back to us with. Each one of you did, I guess.

Mr. DORN. Yes, sir, Mr. Chairman.

Chairman GLENN. I hope you do that as soon as possible. We will keep the record open for 10 days. We hope you could respond within that period of time as an objective. Our staffs can work back and forth with you, and we appreciate your being here this morning. We will do everything we can to move this along. Obviously there are a number of questions we have on the Committee here, and we will be working on it just as fast as we can. Thank you very much.

The Committee will stand in recess subject to the call of the Chair.

[Whereupon, at 11:57 a.m., the Committee was adjourned subject to the call of the Chair.]

APPENDIX

II

103D CONGRESS
1ST SESSION

S. 1535

To amend title 5, United States Code, to eliminate narrow restrictions on employee training, to provide a temporary voluntary separation incentive, and for other purposes.

IN THE SENATE OF THE UNITED STATES

OCTOBER 7 (legislative day, SEPTEMBER 27), 1993

Mr. GLENN (for himself, Mr. STEVENS, and Mr. PRYOR) introduced the following bill; which was read twice and referred to the Committee on Governmental Affairs

A BILL

To amend title 5, United States Code, to eliminate narrow restrictions on employee training, to provide a temporary voluntary separation incentive, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Federal Workforce Restructuring Act of 1993".

SEC. 2. EMPLOYEE TRAINING.

(a) IN GENERAL.—Chapter 41 of title 5, United States Code, is amended—

(1) in section 4101(4) by striking out "fields" and all that follows through the semicolon and inserting in lieu thereof "fields which will improve individual and organizational performance and assist in achieving the agency's mission and performance goals;";

(2) in section 4103—

(A) in subsection (a) by striking out "In" and all that follows through "proficiency" and inserting in lieu thereof "In order to assist in achieving an agency's mission and performance goals by improving employee and organizational performance"; and

(B) in subsection (b)—

(i) in paragraph (1) by striking out "determines" and all that follows through the period and inserting in lieu thereof "determines that such training would be in the interests of the Government.";

(ii) by striking out paragraph (2) and redesignating paragraph (3) as paragraph (2); and

(iii) in subparagraph (C) of paragraph (2) (as redesignated under clause (ii) of this subparagraph) by striking out "retain-

ing" and all that follows through the period and inserting in lieu thereof "such training.";

(3) in section 4105—

(A) in subsection (a) by striking out "(a)"; and

(B) by striking out subsections (b) and (c);

(4) by repealing section 4106;

(5) in section 4107—

(A) by amending the section heading to read as follows:

"**§ 4107. Restriction on degree training**";

(B) by striking out subsections (a) and (b) and redesignating subsections (c) and (d) as subsections (a) and (b), respectively;

(C) by amending subsection (a) (as redesignated under subparagraph (B) of this paragraph)—

(i) by striking out "subsection (d)" and inserting in lieu thereof "subsection (b)"; and

(ii) by striking out "by, in, or through a non-Government facility"; and

(D) by amending paragraph (1) of subsection (b) (as redesignated under subpara-

graph (B) of this paragraph) by striking out "subsection (c)" and inserting in lieu thereof "subsection (a)";

(6) in section 4108(a) by striking out "by, in, or through a non-Government facility under this chapter" and inserting in lieu thereof "for more than a minimum period prescribed by the head of the agency";

(7) in section 4113(b) by striking out all that follows the first sentence;

(8) by repealing section 4114; and

(9) in section 4118—

(A) in subsection (a)(7) by striking out "by, in, and through non-Government facilities";

(B) by striking out subsection (b); and

(C) by redesignating subsections (c) and (d) as subsections (b) and (c), respectively.

(b) TECHNICAL AND CONFORMING AMENDMENTS.—The table of sections for chapter 41 of title 5, United States Code, is amended—

(1) by striking out the items relating to sections 4106 and 4114; and

(2) by amending the item relating to section 4107 to read as follows:

"4107. Restriction on degree training.".

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of enactment of this Act.

SEC. 3. VOLUNTARY SEPARATION INCENTIVES.

(a) DEFINITIONS.—For purposes of this section, the term—

(1) "agency" means an Executive agency, as defined under section 105 of title 5, United States Code, but does not include the Department of Defense, the Central Intelligence Agency, or the General Accounting Office; and

(2) "employee" means an employee, as defined under section 2105 of title 5, United States Code, of an agency, serving under an appointment without time limitation, who has been currently employed for a continuous period of at least 12 months, including an individual employed by a county committee established under section 8(b) of the Soil Conservation and Domestic Allotment Act (16 U.S.C. 590h(b)), but does not include—

(A) a reemployed annuitant under subchapter III of chapter 83 or chapter 84 of title 5, United States Code, or another retirement system for employees of the Government; or

(B) an employee having a disability on the basis of which such employee is or would be eligible for disability retirement under the applicable retirement system referred to in subparagraph (A).

(b) AUTHORITY TO MAKE PAYMENT.—(1) In order to assist in the restructuring of the Federal workforce while minimizing involuntary separations, the head of an agency may pay, or authorize the payment of, a voluntary separation incentive payment to employees—

(A) in any component of the agency;

(B) in any occupation;

(C) in any geographic location; or

(D) on the basis of any combination of the factors described under subparagraphs (A) through (C).

(2) In order to receive an incentive payment under paragraph (1), an employee shall separate from service with the agency (whether by retirement or resignation) during the 90-day period described under paragraph (3).

(3) The head of an agency shall designate a continuous 90-day period for purposes of separation under this subsection for such agency or any component thereof. Such 90-day period shall begin no earlier than the date

of the enactment of this Act and shall end no later than September 30, 1994.

(4) Notwithstanding the provisions of paragraphs (2) and (3), an employee may receive an incentive payment under this section and delay a separation from service if—

(A) the agency head determines that it is necessary to delay such employee's separation from service in order to ensure the performance of the agency's mission; and

(B) no later than 2 years after the date of the last day of the 90-day period designated under paragraph (3), such employee separates from service in the agency.

(c) VOLUNTARY SEPARATION INCENTIVE PAYMENT.—A voluntary separation incentive payment—

(1) shall be paid in a lump sum after the employee's separation;

(2) shall be equal to the lesser of—

(A) an amount equal to the amount the employee would be entitled to receive under section 5595(c) of title 5, United States Code, if the employee were entitled to payment under such section; or

(B) $25,000;

(3) shall not be a basis for payment, and shall not be included in the computation, of any other type of Government benefit;

(4) shall not be taken into account in determining the amount of any severance pay to which an employee may be entitled under section 5595 of title 5, United States Code, based on any other separation; and

(5) shall be paid from appropriations or funds available for the payment of the basic pay of the employee.

(d) SUBSEQUENT EMPLOYMENT AND REPAYMENT OF INCENTIVE PAYMENT.—(1) An employee who has received a voluntary separation incentive payment under this section and accepts employment with the Government of the United States within 5 years of the date of the separation on which payment of the incentive is based shall be required to repay the entire amount of the incentive payment to the agency that paid the incentive payment.

(2) If the employment is with an Executive agency (as defined under section 105 of title 5, United States Code), the Director of the Office of Personnel Management may, at the request of the head of the agency, waive the repayment if the employment is in a position for which

there is exceptional difficulty in recruiting a qualified employee.

(3) If the employment is with an entity in the legislative branch, the head of the entity or the appointing official may waive the repayment if the employment is in a position for which there is exceptional difficulty in recruiting a qualified employee.

(4) If the employment is with the judicial branch, the Director of the Administrative Office of the United States Courts may waive the repayment if the employment is in a position for which there is exceptional difficulty in recruiting a qualified employee.

(e) REGULATIONS.—The Director of the Office of Personnel Management may prescribe any regulations necessary for the administration of this section.

(f) JUDICIAL BRANCH PROGRAM.—The Director of the Administrative Office of the United States Courts may, by regulation, establish a program consistent with the program established by subsections (a) through (d) of this section for employees of the judicial branch.

(g) REDUCTION GOALS.—It is the sense of Congress that—

(1) employment in the executive branch should be reduced by not less than one full-time equivalent

position for each 2 employees who are paid voluntary separation incentives under this Act; and

(2) each agency should adjust its employment levels to achieve such result.

SEC. 4. SUBSEQUENT EMPLOYMENT AND REPAYMENT OF SEPARATION PAYMENT.

(a) DEFENSE AGENCY SEPARATION PAY.—Section 5597 of title 5, United States Code, is amended by adding at the end thereof the following new subsection:

"(g)(1) An employee who receives separation pay under this section on the basis of a separation occurring on or after the date of enactment of the Federal Workforce Restructuring Act of 1993 and accepts employment with the Government of the United States within 2 years of the date of the separation on which payment of the separation pay is based shall be required to repay the entire amount of the separation pay to the defense agency that paid the separation pay.

"(2) If the employment is with an Executive agency (as defined under section 105 of title 5, United States Code), the Director of the Office of Personnel Management may, at the request of the head of the agency, waive the repayment if the employment is in a position for which there is exceptional difficulty in recruiting a qualified employee.

"(3) If the employment is with an entity in the legislative branch, the head of the entity or the appointing official may waive the repayment if the employment is in a position for which there is exceptional difficulty in recruiting a qualified employee.

"(4) If the employment is with the judicial branch, the Director of the Administrative Office of the United States Courts may waive the repayment if the employment is in a position for which there is exceptional difficulty in recruiting a qualified employee.".

(b) CENTRAL INTELLIGENCE AGENCY SEPARATION PAYMENT.—Section 2(b) of the Central Intelligence Agency Voluntary Separation Pay Act (Public Law 103–36; 107 Stat. 104) is amended by adding at the end thereof the following: "An employee who receives separation pay under this section on the basis of a separation occurring on or after the date of the enactment of the Federal Workforce Restructuring Act of 1993 and accepts employment with the Government of the United States within 2 years of the date of the separation on which payment of the separation pay is based shall be required to repay the entire amount of the separation pay to the Central Intelligence Agency. If the employment is with an Executive agency (as defined under section 105 of title 5, United States Code), the Director of the Office of Personnel Man-

agement may, at the request of the head of the agency, waive the repayment if the employment is in a position for which there is exceptional difficulty in recruiting a qualified employee. If the employment is with an entity in the legislative branch, the head of the entity or the appointing official may waive the repayment if the employment is in a position for which there is exceptional difficulty in recruiting a qualified employee. If the employment is with the judicial branch, the Director of the Administrative Office of the United States Courts may waive the repayment if the employment is in a position for which there is exceptional difficulty in recruiting a qualified employee.".

SEC. 5. FUNDING OF EARLY RETIREMENTS IN CIVIL SERVICE RETIREMENT SYSTEM.

(a) IN GENERAL.—Section 8334 of title 5, United States Code, is amended by adding at the end thereof the following new subsection:

"(l) In addition to any other payments required by this subchapter, an agency shall remit to the Office for deposit in the Treasury of the United States to the credit of the Fund an amount equal to 9 percent of the final rate of basic pay of each employee of the agency who retires under section 8336(d).".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply with respect to retirements occurring on or after the date of the enactment of this Act.

○

Organization of Professional Employees
of the U. S. Department of Agriculture
P.O. BOX No. 381 ▶ WASHINGTON, D. C. 20044 ▶ PHONE: 202-720-4898
Organized April 8, 1939

October 18, 1993

Senator John Glenn, Chairman
Committee on Governmental Affairs
SD-340 Dirksen Senate Office Building
Washington, D.C. 20510-6250

Dear Senator Glenn:

The Organization of Professional Employees, U.S. Department of Agriculture (OPEDA) respectfully submits the attached testimony relating to the "Federal Workforce Restructuring Act of 1993" which the Committee is scheduled to consider this week.

Sincerely,

Otis N. Thompson
Executive Director

TESTIMONY SUBMITTED TO THE
COMMITTEE ON GOVERNMENTAL AFFAIRS

By

The ORGANIZATION OF PROFESSIONAL EMPLOYEES IN
THE DEPARTMENT OF AGRICULTURE
October 19, 1993

****

AGRICULTURAL EXTENDED RETIREMENT CREDIT
AN OPTION FOR RETIREMENT

The Organization of Professional Employees in the Department of Agriculture (OPEDA) supports the proposed buyout and early out options to encourage retirement by Federal Employees. These and other options are needed if Congress and Secretary Espy are to achieve desired reductions in the cost of delivering services and doing business in the Department of Agriculture.

To achieve these goals, Secretary Espy, appearing before the House Committee on Agriculture on September 29, 1993, proposed to organize the Department around six basic missions and to reduce the number of agencies and staff offices in Washington from 43 to 30 and reduce field offices from 3700 to 2500. These actions will reduce costs but will require a large reduction in Department employees.

Agricultural Extended Retirement Credit Option

The Organization of Professional Employees in the Department of Agriculture urges the adoption of Agricultural Extended Retirement Credit as an option, along with buyouts and early outs, to encourage the retirement of USDA employees in support of the Secretary's initiate and to recognize the loyal service rendered by Department employees in Cooperative Federal-State Programs in education, research, marketing, inspection, and disease and pest control. Federal and State Extension Service employees and retirees who would receive extended credit in the Civil Service Retirement System generally receive few or no retirement benefits for their prior service in Cooperative Federal-State service from either Social Security or a State retirement system.

OPEDA has, for some years, sought legislation to extend credit in the Civil Service Retirement System (CSRS) to certain individuals for service prior to January 1, 1984 in twelve Cooperative Federal-State Agricultural Programs (See Enclosure 2, Background Information, page 5, for a list of programs). Credit would be extended for such service only if an employee of a Cooperative Federal-State Program later became subject to CSRS either as a direct hire Federal employee or as an employee of a Cooperative State Extension Service.

Civil Service retirement credit has been extended to an estimated 50,000 employees in the two largest programs, the Cooperative State Extension Services and county committee activities established to carry out

BEST COPY AVAILABLE

provisions of the Agricultural Adjustment Acts of 1933 and 1938 and related statutes. However, there remain approximately 1,800 currently employed or retired Federal employees with periods of prior service in twelve Cooperative Federal-State Programs and survivor annuitants of such individuals, who have not received extended credit for such service. Enactment of legislation for prior service in these programs would correct a long-standing inequity for the small and rapidly shrinking number of individuals and their survivors.

Impact of Extended Credit on Retirement and Net Federal Cost Reductions

Based on the information provided by beneficiaries, extending Civil Service retirement credit for prior service in Cooperative Federal-State Agricultural Programs would have the following favorable impacts on costs and retirements. (Summarized from Appendix A). These estimates are consistent with estimates made by the Congressional Budget Office. (Enclosure 1)

Item	1994	1994-1998
	Number	
Number of employees that would retire	504	653
	$Million	
Reduced salary and associated employee costs	36.3	209.7
Increases outlays from the Civil Service Retirement Fund	6.1	45.4
Net Federal cost reductions due to employees retiring as a result of extending Civil Service retirement credit	30.2	164.3

APPENDIX A

ESTIMATED IMPACTS ON EXPENDITURES AND EMPLOYMENT
OF AGRICULTURAL EXTENDED RETIREMENT CREDIT LEGISLATION

(Fiscal Years)

ITEM	1994	1995	1996	1997	1998	5 Years	Lifetime
NUMBER OF EMPLOYEES THAT WOULD RETIRE			-------Number-------				
With the Bill	504	50	47	44	42	653	
Without the Bill	151	109	98	79	57	475	
RETIREMENT ANNUITIES			--------$ Million--------				
Employees							
With a Bill	12.2	13.3	14.2	15.1	15.9	70.8	382.1
Without a Bill	3.4	5.8	7.9	9.6	10.7	37.4	293.0
Increase	8.8	7.5	6.3	5.6	5.2	33.4	88.3
Retirees	4.3	4.2	4.0	3.9	3.7	20.1	47.3
REDEPOSITS	7.0	0.3	0.3	0.2	0.2	8.0	9.7
DIRECT OUTLAYS OF THE CIVIL SERVICE RETIREMENT FUND	6.1	11.4	10.1	9.2	8.7	45.4	125.9
REDUCTIONS IN APPROPRIATED SPENDING	36.3	39.4	42.2	44.8	47.0	209.7	209.7
NET REDUCTIONS IN FEDERAL SPENDING FROM EXTENDED CREDIT	30.2	28.0	32.1	35.6	38.3	164.3	83.7

ASSUMPTIONS

Number of beneficiaries 1,800

Current employees 1,008
Retirees 792

Average number of years of Extended Credit 6.0

Average Grade Grade 12 Step 5

Average high-3 salary $45,000

Beneficiaries will retire an average of 4 years earlier

ESTIMATING EXPENDITURES AND EMPLOYMENT CHANGES

The Organization of Professional Employees in the Department of Agriculture distributed over 30,000 questionnaires in the spring of 1988 to develop a data base on potential beneficiaries of Civil Service retirement credit for prior service in Cooperative Federal-State Agricultural Programs. Questionnaires were sent to:

1. Federal employees identified as potential beneficiaries in a 1984 OPEDA questionnaire sent to the OPEDA membership.

2. Members of the National Association of Federal-State Employees.

3. Extension Specialists on Land Grant University Campuses and Agricultural Research Centers as listed in the 1986-87 Directory of Professional Workers in State Agricultural Experiment Stations and Other Cooperating State Institutions.

4. State and county offices of State Cooperative Extension Services and the U.S. Department of Agriculture.

5. Research laboratories of the Agricultural Research Service and Technical Centers of the Soil Conservation Service.

6. Managers in the U.S. Department of Agriculture in the Washington Area at the level of Section Leader or higher.

7. Federal employees that were listed as additional potential beneficiaries by those returning survey forms.

Over 1,250 potential beneficiaries were identified from the 1,400 questionnaires that were received from the nationwide mailing. Based on the response to and comments supplied on the questionnaire, it was estimated that we had identified approximately one-half of the potential beneficiaries. The estimated number of potential beneficiaries of 2,500 in 1988 was adjusted downward to 1,875 in 1991, and to 1,800 in 1993 as a result of deaths and additional information.

Estimates of the number of employees that would retire, expenditures, and direct outlays from the Civil Service Retirement Fund were based upon information provided by potential beneficiaries. Estimates of the reductions in appropriated funds were based on 160 percent of salaries of employees. The additional 60 percent includes health and retirement benefits and the cost of secretarial and clerical support, travel, computers, laboratory and related expense, training, supplies, and other related expenses.

Estimates of the number of employees that would retire in each year are adjusted using actuarial tables. The number of employees retiring was adjusted to account for the potential beneficiaries that are likely to retire whether or not the legislation for extended credit is enacted.

BEST COPY AVAILABLE

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, D.C. 20415

OFFICE OF THE DIRECTOR

OCT 25 1993

Honorable John Glenn
Chairman
Committee on Governmental Affairs
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

I am writing to respond to several questions you raised during my testimony at your October 19, 1993, hearing on S. 1535, the "Federal Workforce Restructuring Act of 1993."

With regard to the ratio of supervisors to employees at the Office of Personnel Management, the ratio for Fiscal Year 1992 was one supervisor to 8.45 employees (1:8.45). The Government-wide ratio for FY 1992 was 1:7.86. I understand that the statistics for Fiscal Year 1993 will be available by January.

Our goal at the Office of Personnel Management is to modify this ratio significantly in FY 94 and FY 95. I have confidence that these goals are attainable with the anticipated use of the voluntary separation incentive authority, the voluntary early retirement authority, and other management tools available to this and other agencies. We will be formulating specific numeric goals for submission to the Office of Management and Budget as part of its request to agencies to provide such data by December 1, 1993.

You also asked me to provide data on what attrition rates have been by grade level in the Government over a period of years. The attached data shows separations by grade for full-time permanent General Schedule employees and excludes the separation of employees who transferred to other Federal agencies. The period covered is FY 1988 through FY 1992.

I trust this information will be helpful to the Committee as you continue your consideration of S. 1535. Please let me know if I may provide you with any additional information you may need.

Sincerely,

Lorraine A. Green

James B. King
for Director

Enclosures

Separations by Grade
Full-time Permanent General Schedule & Identical
Excluding Transfers
Executive Branch

FY 1992

Grade	Separations	Rate
1	9	12.5
2	165	13.6
3	2,200	11.4
4	8,430	8.5
5	10,960	6.5
6	5,232	5.1
7	7,139	5.0
8	1,339	4.1
9	6,440	4.3
10	1,059	3.6
11	7,172	3.6
12	6,812	3.0
13	4,389	3.0
14	2,517	3.0
15	1,460	3.8
All	65,349	4.5

Excludes all placement in nonpay status actions.

Excludes seasonal/on-call and student trainees.

Separations by Grade
Full-time Permanent General Schedule & Identical
Excluding Transfers
Executive Branch

FY 1991

Grade	Separations	Rate
1	13	17.3
2	265	17.2
3	2,732	12.3
4	10,039	8.3
5	12,615	7.3
6	5,795	5.9
7	8,910	6.3
8	1,484	4.6
9	8,227	5.4
10	1,284	4.5
11	9,376	4.8
12	8,937	4.2
13	5,467	3.9
14	3,029	3.9
15	1,750	4.7
All	79,966	5.6

Excludes all placement in nonpay actions.

Excludes seasonal/on-call and student trainees.

BEST COPY AVAILABLE

Separations by Grade
Full-time Permanent General Schedule & Similar
Excluding Transfers
Executive Branch

FY 1990

Grade	Separations	Rate
1	36	26.9
2	434	20.1
3	3,763	14.5
4	13,158	11.3
5	15,268	8.6
6	6,944	7.2
7	9,884	7.1
8	1,755	5.7
9	8,817	5.8
10	1,513	5.4
11	9,643	5.0
12	9,364	4.6
13	6,028	4.5
14	3,445	4.7
15	1,841	5.3
16	29	5.8
17	3	5.7
18	2	6.9
Unsp	1	-
All	91,928	6.6

Excludes all placement in nonpay actions.

Excludes seasonal/on-call and student trainees.

Separations by Grade
Full-time Permanent General Schedule & Similar
Excluding Transfers
Executive Branch

FY 1989

Grade	Separations	Rate
1	31	17.7
2	641	24.0
3	5,113	16.9
4	15,479	12.5
5	17,947	10.0
6	7,353	7.9
7	10,858	7.8
8	1,855	6.1
9	9,714	6.4
10	1,664	6.0
11	10,056	5.4
12	9,555	4.9
13	5,885	4.6
14	3,349	4.9
15	1,983	6.0
16	43	8.1
17	9	15.5
18	8	28.7
Unsp	15	-
All	101,558	7.3

Excludes all placement in nonpay status actions.

Excludes seasonal/on-call and student trainees.

BEST COPY AVAILABLE

Source: Central Personnel Data File

Coverage -- Transaction File

Executive Branch - All Agencies except the U.S. Postal Service, Postal Rate Commission, Central Intelligence Agency, National Security Agency, Federal Bureau of Investigation, Tennessee Valley Authority, White House Office, Office of the Vice President, Board of Governors of the Federal Reserve System, and Defense Intelligence Agency

Legislative Branch - Includes only the Government Printing Office, U.S. Tax Court, and selected commissions

Judicial Branch - Excluded

Other Exclusions - Nonappropriated fund employees in Defense activities, Commissioned Corps employees, and Foreign Nationals employed outside of the U.S. or its territories

PREPARED STATEMENT OF SENATOR AKAKA

Mr. Chairman, I am pleased to support S. 1535, the Federal Workforce Restructuring Act of 1993. On behalf of the over thirty-nine thousand Federal employees in the State of Hawaii, I stand ready to work with you and members of this Committee to pass this important bill.

The Administration is streamlining the Federal Government to work better and costs less. In doing so, the Administration seeks to reduce the Federal workforce by 252,000 employees. Although I question the exact number of employees that need to be released, I support the Administration's proposal to provide incentives for employees to alleviate the pain of separation.

The Federal Workforce Restructuring Act provides training assistance to Federal employees. As a result of this bill, employees will be able to obtain the skills necessary to meet the new requirements of their jobs.

Mr. Chairman, many Federal employees have delayed their scheduled retirement because of the current state of the economy. Their decision to do so, however, has affected Federal agencies and younger employees seeking advancement on the civil service ladder. This bill provides an incentive to those at or near retirement to leave government service in order to provide opportunities to others. Hopefully, it will eliminate the need for involuntary separations.

I look forward to the testimony of our witnesses here today. I am especially interested in learning the results of the Department of Defense's efforts to implement its Separation Pay Program and any recommendations they may have for our other Federal agencies.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF G. JERRY SHAW

Good morning Chairman Glenn. My name is Jerry Shaw. I am the General Counsel to the Senior Executives Association. SEA appreciates the opportunity to appear and testify before you today on the Federal Workforce Restructuring Act of 1993. We commend you for your leadership on this and other matters of concern to Federal employees.

We have examined the provisions of the Act, and have some suggestions. Some in Congress and the public question the necessity for buy out provisions in order to downsize the government. They see this proposal as a new and expensive benefit, and believe that the best way to proceed is to merely conduct reductions in force in order to fire the people who are excess.

As you and I know, it is not as easy as all that. Agencies estimate that to run a reduction in force under law, and remove employees who are excess, costs on average $25,000 per employee. Thus, the payment of a voluntary separation incentive makes good economic sense. For essentially no cost, much disruption to our government agencies and the citizens they serve is avoided.

In addition, downsizing in the private sector is, in fact, much more expensive than in the public sector. Analysis of recent studies by Charles Brown, Professor, University of Michigan, which he prepared in September of 1993, shows that in the private sector between the years of 1982 and 1992 of the substantial number of special early retirement offers studied, employees accepted approximately 50 percent and rejected approximately 50 percent. On average, the mean offer which was accepted by employees receiving cash buy out offers was a separation incentive of $38,000 in cash and $6,600 in additional pension benefits. Of the approximately 50 percent who rejected the offers (in some cases there were multiple offers), the mean offer rejected by those receiving cash buy out offers was $29,000 cash and a $3,900 additional pension benefit. The Government is offering to its employees a maximum of $25,000 in a voluntary separation incentive, and no additional retirement incentive. We understand that the average incentive paid out to Department of Defense employees under their program has been less than $20,000.

Professor Brown's report makes some very interesting points. In the private sector, those who accept the incentive offers are (a) more likely to be married than those who reject them; (b) twice as likely to report that a health condition limits their work; (c) twice as likely to report that they would accept a hypothetical alternative job; and (d) finally, those who accept the offers are more likely to be risk tolerant individuals. He reports that half or more of those who accepted the incentive offers returned to work in other companies. However, many had to endure reduced work weeks and pay.

Thus, in the private sector the mean was a higher cash payment than that offered by the government, and an increased pension benefit where the government has offered none. If government employees are similar to private sector employees, and

we believe they are, then approximately half of those accepting the offer will be seeking active full time work. We, therefore, urge that this bill require a job outplacement program be established in each agency for those who accept the offer, but are seeking other employment, so that they do not wind up with a reduction in working hours and compensation because of having left their current positions. We also urge that there be an educational effort to assist employees with financial planning. Many Federal employees are unskilled in such matters, and classes on financial planning, budgeting, etc., are an absolutely essential part of helping these employees transition. Finally, we do not believe that a 90-day window is sufficient time for employees to make a rational decision. If they are provided with the financial planning and, thus, the ability to make valid judgments on what is best for their families, they should also be given a reasonable time to explore private sector job opportunities if they plan to continue in the workforce. A 90-day time period is not sufficient to evaluate the offers, get financial advice, and seek other employment if desired. We suggest that the agencies provide up to a 6-month window of opportunity for employees rather than 90 days.

We would like to propose an alternative to the cash buy out that we think would assist the Administration and Congress in accomplishing the objective of rightsizing the government, especially in the mid and senior level grades. Our informal polling of GS–14's, 15's and SESers leads us to conclude that the cash buy out offer will not motivate many long service employees into either taking early or optional retirement, assuming they are eligible. Of course, those who are not eligible would be receiving severance pay, and thus, no buy out dollars. On the other hand, the one benefit that these employees nearly uniformly indicated would incentivize their early retirement was elimination of the 2 percent reduction in annuity for each year under age 55.

To eliminate the 2 percent reduction would be more costly than the cash buy out, and would require a change in the retirement law, rather than the use of the agency's discretionary funds. Because of those objections, we propose an alternative which would have no increased net costs to the agencies, but would be more beneficial to the employees and have the affect of eliminating at least part of the annuity reduction.

Specifically, we propose that the buy out amount be paid by the agency into the employee's CSRS retirement account or their FERS Thrift account. Currently, employees under CSRS are authorized to make voluntary contributions to the retirement fund, and to receive in return for those contributions either an extra annuity amount, or a return of the contribution at some point prior to retirement with interest based on the average yield of new investments purchased by the retirement fund during the previous fiscal year. (See 5 U.S.C §8343, and FPM Supplement 830–1, July 27, 1990.) If this bill provided that the agency make the deposit to the CSRS or FERS Thrift account rather than to the employee, it would not be immediately taxable to the employee, but would be taxable when withdrawn or when taken as an addition of their annuity. As with the voluntary contribution amount, there should be no annual COLA adjustment to the additional annuity amount. (See FPM Supplement 830–1, chapter 31, part 31A3, subparagraph B.2. The effect of this would be for an employee at age 52 to have eliminated a substantial amount of the 2 percent reduction in their annuity that they would take for early retirement. Younger employees would still have a substantial reduction, but less than the amount of reduction that they would take under normal circumstances. In addition, the employee should be allowed to withdraw the agencies additional contribution (just as they can voluntary contributions)—with interest earned at any time prior to receiving an annuity. The amount of the contribution and interest received would then be fully taxable to the employee at that time.

We believe that this would be a beneficial option for many employees, and would have the effect of encouraging many more to consider accepting a voluntary separation incentive if presented in this form.

We note that since the agencies will be making a contribution of 9 percent of employees payroll under this bill to the Civil Service Retirement Fund, then it should not be a problem to add the voluntary separation incentive to that 9 percent for deposit to the employees' account.

We commend the Administration on their proposals to amend the training act and eliminate other training restrictions. We wholeheartedly support the proposed changes.

Thank you for the opportunity to submit this statement. I would be happy to answer any questions you might have.

U S. OFFICE OF PERSONNEL MANAGEMENT
Washington, DC, November 4, 1993.

Hon. JOHN GLENN
Chairman, Committee on Governmental Affairs, U.S. Senate,
Washington, DC.

DEAR MR. CHAIRMAN: I appreciated very much the opportunity to appear before your Committee on October 19, 1993, to discuss S. 1535, the Federal Workforce Restructuring Act of 1993. The Office of Management and Budget and the Office of Personnel Management have jointly prepared the enclosed responses to questions for the record submitted to our two agencies following the hearing.

If any additional information is needed, please do not hesitate to let me know.

Sincerely,

JAMES B. KING
Director.

Enclosures

ENCLOSURE 1

QUESTIONS SUBMITTED BY SENATOR GLENN

Question 1. Does the Administration support expedited congressional action on H.R. 2876, the so-called NASA buy-out bill? If not, why not?

Answer. The Administration has requested expedited congressional action on S. 1535 and M.R. 3345, which provide buyout authority for all executive branch agencies. Since NASA is not the sole agency in urgent need of the buyout tool, we believe the emphasis should be on the Governmentwide bill rather than on individual agency authorities.

Question 2. As you know, H.R. 2876 has been held up in Congress due to budgetary concerns. Do you expect these same budgetary concerns to stall S. 1535?

Answer. The Office of Management and Budget has determined that enactment of S. 1535 would not require a sequester under the Budget Enforcement Act. Therefore, we hope budgetary concerns will not stall S. 1535.

ENCLOSURE 2

QUESTIONS SUBMITTED BY SENATOR PRYOR

Question 1. Since agency heads have the discretion to offer the separation pay incentives to employees who retire or resign, are there certain categories of employees who should be exempted from being eligible for the buyouts? Have you identified shortage/surplus categories?

Answer. The intent of the bill is to give agency heads maximum flexibility to design separation incentive programs that meet their downsizing goals. They would decide whether certain categories of positions are surplus, such as supervisors. Agencies also would identify which positions are critical to accomplishing the agency mission and thus should not be eligible for incentives. These categories of positions would vary by agency.

Employees in positions that are hard to fill could be a category agencies exempt from offers. The Administration does not wish to exempt all employees in shortage categories because an agency's need for such workers could change as the agency changes the way it operates, reorganizes, or otherwise implements National Performance Review (NPR) recommendations.

Question 2. Agency heads can hold over employees who elect the separation incentives for up to 2 years. Will there be limits on the number of people allowed to stay on?

Answer. Each agency head would decide this. We do not foresee agencies making widespread use of this delayed separation provision because it would hamper their ability to meet the steep budget reductions expected in fiscal year 1995.

Question 3. Separation incentives would be offered at the discretion of the agency head during a 90 day window which would be set by the agency. Do you foresee agencies running more than one ninety day window? How would that work?

Answer. An agency may have different window periods for different components, locations, grade levels, etc. However, each individual employee will have only a sin-

gle window during which he or she has the opportunity to accept an offer of a separation incentive.

Question 4. Over the last 5 years, how much money has the Government spent on training? With the Government's new emphasis on training, how much do you estimate the departments and agencies will spend on training over the next 5 years?

Answer. For the period 1988–1992, the Government spent $3,704.4 million on training. The breakdown by year is as follows (expressed in millions)

1988: $715.0
1989: $595.1
1990: $735.4
1991: $946.0
1992: $713.3

Given the current climate, 5-year projections are tenuous. However, there are forces to suggest that the total amount of expenditures for the 5-year period 1993–1997 will not change dramatically from the 1988–1992 figures. Growth factors include inflation, worker retraining costs, an expanded definition of the purpose of training, and greater Administration emphasis on developing a highly skilled, service-oriented workforce. Forces working against an increase would include reductions in agency budgets, cost-cutting recommendations in the NPR report, and expanded use of more cost-effective means of training, such as mentoring, apprenticeships, and "distance learning," which is a generic term covering such techniques as correspondence courses and interactive television.

Question 5. The legislation would remove the current restrictions on the use of private sector training sources. How much of the training budget do you estimate will be spent on private sector trainers?

Answer. In 1992, non-Government training accounted for 47 percent of training expenditures. If the current restrictions are lifted, we can expect some modest increase in the proportion of non-Government to Government training expenditures, although agencies will probably still be inclined to favor in-house training. Under current training regulations, an agency may select from among Government and non-Government training sources based upon their *adequacy* (quality of instruction, materials, etc.) and *reasonableness* (cost, location, etc.). It is each agency's responsibility to determine which Source will best meet these criteria. These considerations will continue to shape decisions on the selection of training sources.

Question 6. Employees are often attracted to Federal employment because of the Federal training opportunities, especially for the nursing and professional occupations. In a 1990 study, GAO found many examples of the "revolving door syndrome" where employees leave for better jobs after receiving valuable hands-on and formal training. If we invest more money in worker training, what changes do we need to make to ensure we get a return on our training dollars?

Answer. With the elimination of the distinction between Government and non-Government training, agencies will be able to use the "continued service agreement" for *both* categories of training, thereby offering greater protection for investments of time and money in worker training.

Under existing regulations, an employee attending a *non-Government training* program that is 80 hours (or longer) is required to agree in writing to continue in Government service for a designated period of time upon completion of the training. The "continued service agreement" under the proposed amendments will apply to both Government training and non-Government training, but each agency will establish its own policy on the length of training that will require use of an agreement.

As we move to empower the Federal worker, we believe the opportunities for training and development will serve as a strong incentive for the worker to remain with the Government, especially if the employee sees that additional growth opportunities will result.

Question 7. Some employees who may be eligible for a buyout may not want to retire because they would lose their health insurance. Employees must participate in the Federal Employees Health Benefits Program 5 years before retiring in order to continue coverage. To encourage employees to leave, will OPM be more liberal in waiving exceptions to this requirement?

Answer. The FEHB statute gives OPM authority to waive the 5-year participation requirement for continuing health benefits coverage into retirement when it would be "against equity and good conscience" not to do so. We will continue to exercise the waiver authority and review the program as necessary.

Question 8. It is often asserted that early retirements save money over RIFs. How much money is saved per early retirement with the incentive vs. a RIF'd employee over a five-year period?

Answer. We estimate that an agency would save $63,600 over 5 years by offering voluntary early retirement and a voluntary separation incentive to an employee instead of involuntarily separating an employee through reduction in force (RIF) procedures.

Question 9. While the NPR report identifies positions which are overstaffed, have you found evidence of understaffing? If so, where?

A. Individual agencies are in the best position to identify understaffing of their programs. We have not made a study of understaffing.

Question 10. The Federal Government spent $90 billion on service contracts in 1989 and plans to spend $105 billion in fiscal year 1993. As agency budgets are cut and the Federal work force is reduced, what are your projections for how much the Federal Government will spend on service contracting for the next 5 years?

Answer. The Federal Government spent $88.5 billion on service contracts in Fiscal Year 1989, $90.6 billion in fiscal year 1990, $103 billion in fiscal year 1991, and $105 billion in fiscal year 1992. The projected staffing decreases are expected to come from reduced management layers, consolidation of field offices, and efficiencies from implementing NPR's recommendations on procurement, personnel, and program reengineering. These are not areas where service contracts would become a substitute for performance by Government personnel. We have not yet developed out-year projections for service contracts but would expect, with DOD and other downsizing, an overall decrease to occur in the number and value of service contracts.

Question 11. I am concerned that reducing Federal employees, without capping service contracts, will increase the cost of fulfilling the government's mission. Would you support a proposal to cap service contracting at this year's level to ensure we obtain true efficiency?

Answer. Agencies have already been directed to reduce administrative costs and to take further spending reductions in order to stay within the spending caps. In order to achieve the needed savings, agencies should be encouraged to either contract but or to perform functions with Government personnel depending on the total cost to the Government for meeting the mission requirement. Capping contract dollars at current levels, without regard to either inflation or the competitive cost of services could lead to inefficiencies and would severely limit an agency's ability to respond to changing conditions and requirements.

Question 12. I am concerned that we may end up rehiring employees who took the retirement or resignation incentives as consultants. S. 1535 requires employees to repay the separation incentives if reemployed by the Government within 5 years. I am interested in extending this repayment provision to retirees or former employees who attempt to return as consultants. What is your view on this change?

Answer. Buyout recipients who are appointed as consultants under 5 U.S.C. 3109 would be subject to the repayment requirements in the same fashion as any other employees.

Those who are employed by firms which provide consulting services to the Government would not be covered by the repayment provisions. We do not believe that it is reasonable or feasible to attempt to regulate the full range of post-employment options available to the broad spectrum of buyout recipients. We do believe that the bar against immediate reemployment in the Federal service is adequate to protect the Government against collusive separations.

ENCLOSURE 3

QUESTIONS SUBMITTED BY SENATOR ROTH

Question 1. The Congressional Budget Office testified before the House Subcommittee on Compensation and Employee Benefits on October 19, 1993 and provided the following information.

CBO estimates that of the 252,000 downsizing effort government-wide, 160,000 Department of Defense employees will be leaving during the 1994–1999 fiscal years. This is a significant number of people toward reaching the announced goal. Assuming, consistent with the President's budget, that a reduction of about 10,000 will be accomplished in 1993.

Consequently, this means that civilian agencies would have to make only 82,000 reductions to meet the goal of 252,000 by 1999. Based on average attrition rates, couldn't this 82,000 figure be attained over the next 6 years without any incentive payment? Would a hiring freeze assist in accomplishing the 82,000 goal?

Answer. (The answer to this question will follow shortly)

Question 2. The bill mandates a 9 percent intragovernmental transfer of appropriated funds to the Civil Service Retirement fund by the agency paying the incentive for each employee who retires early. This would be a permanent change in law affecting any future early retirees after the incentive program ends.

Why is the 9 percent transfer only required for persons retiring under the Civil Service Retirement System (CSRS), and not for persons retiring under the Federal Employees Retirement System (FERS)?

Given that agencies would be required to only transfer the 9 percent for CSRS employees, it is conceivable that FERS employees may be favored when decisions are made on who would not be as costly to the agencies. Why, then, does the bill include this obvious bias for offering incentives?

Answer. The 9 percent transfer payment for early retirements is an actuarial estimate of the net revenue lost from employee contributions when a CSRS employee retires early. CSRS employees generally contribute 7 percent of salary for retirement and FERS employees contribute only 0.8 percent. Thus, there is no net loss of employee contribution revenue in an early FERS retirement. Inasmuch as incentive offerings must be based on components, geographic areas, and/or occupations, etc., we do not believe the transfer differential could introduce any bias in agency decisions.

Question 3. Given the bill's current language on repayment of the incentive should the employee return to the executive branch within 5 years, what rights does the Federal Government retain to require this payback?

What administrative system and enforcement mechanism will be put in place to assure the government of its payback rights?

What amendment would be needed to make absolutely clear that the U.S. has these payback rights?

Answer. The bill's language requiring repayment of the full amount of the incentive if the employee is appointed in the executive branch within 5 years is itself sufficient to create a debt to the Government. Since the bill specifically provides for collection of the full amount, the Government would be entitled to collect that amount.

The Debt Collection Act of 1982 (5 U.S.C. 5514) and OPM's implementing regulations (5 CFR Part 550, Subpart K) already provide such a mechanism. After administrative due process (i.e., written notice and opportunity for hearing), the employing agency may collect the debt by salary offset without the employee's consent.

We believe the Government's basic authority under 5 U.S.C. 5514 and the separation incentive legislation is clear. OPM's regulations implementing the separation incentive legislation will specifically remind agencies of their obligation to provide the notice required under 5 U.S.C. 5514 and 5 CFR Part 550 before appointing anyone subject to the repayment provision.

Sec.————. (a) The President or his designee shall take such action as he determines necessary to ensure that employment in the Executive branch is reduced by at least one full-time equivalent for each two voluntary separation incentive payments paid under section 3 of this Act.

(b) The President or his designee shall report to Congress on the implementation of this section.

Sec.————. (a) The President or his designee shall take such action as he determines necessary to ensure that employment in the Executive branch is reduced by at least two full-time equivalents for each three voluntary separation incentive payments paid under section 3 of this Act.

(b) The President or his designee shall report to Congress on the implementation of this section.

Sec.————. (a) The President or his designee shall take such action as he determines necessary to ensure that, by September 30, 1995, employment in the Executive branch is reduced by at least one full-time equivalent for each voluntary separation incentive payment paid under section 3 of this Act.

(b) The President or his designee shall report to Congress on the implementation of this section.

○

73-597 (88)